



# The Feasibility of a Universal Social Pension

in the Philippines

# THE FEASIBILITY OF A UNIVERSAL SOCIAL PENSION IN THE PHILIPPINES

January 2017

Co-Funded by:



The Coalition of Services of the Elderly, Inc. (COSE) bases its mission on the tradition of respecting older people and supporting community-based programmes. COSE helps older people to continue living in and contributing to their communities.

HelpAge International helps older people claim their rights, challenge discrimination and overcome poverty, so that they can lead dignified, secure, active and healthy lives.

### **The Feasibility of a Universal Pension in the Philippines**

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# ABBREVIATIONS

<b>4Ps</b>	Pantawid Pamilyang Pilipino Program
<b>APIS</b>	Annual Poverty Indicators Survey
<b>COPAP</b>	Confederation of Older Persons Association of the Philippines
<b>COSE</b>	Coalition of Services of the Elderly
<b>DOF</b>	Department of Finance
<b>DRDF</b>	Demographic Research and Development Foundation
<b>DSWD</b>	Department of Social Welfare and Development
<b>ECC</b>	Employee's Compensation Commission
<b>ILO</b>	International Labor Organization
<b>IMF</b>	International Monetary Fund
<b>FIES</b>	Family Income and Expenditure Survey
<b>FSCAP</b>	Federation of Senior Citizens Associations of the Philippines
<b>GSIS</b>	Government Service Insurance System
<b>LFS</b>	Labor Force Survey
<b>LEARN</b>	Labor Education and Research Network
<b>OECD</b>	Organization for Economic Cooperation and Development
<b>OSCA</b>	Office of Senior Citizens Affairs
<b>PGF</b>	Pension and Gratuity Fund
<b>PILKAN</b>	Pinagsamang Lakas at Karunungan ng Nakatatanda
<b>PhilHealth</b>	Philippine Health Insurance Corporation
<b>PSOA</b>	Philippine Survey of Older Persons
<b>SAM</b>	Social Accounting Matrix
<b>SSS</b>	Social Security System
<b>VAT</b>	Value Added Tax

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# EXECUTIVE SUMMARY

## Poverty, inequality and social protection

**Despite positive economic growth in recent years, levels of poverty, vulnerability and inequality remain high in the Philippines.** Recent surveys suggest that between a fifth and a quarter of the population are below the official poverty line at any one moment, with many more living on low incomes and at risk of falling into poverty. The Philippines is also one of the most unequal countries in the region. Failure to tackle these issues will not only result in continued insecurity for at least half the population, but also risks weakening social cohesion and heightening social unrest.

**Social protection will be critical for tackling poverty and inequality, yet existing policies in the Philippines remain too limited to have a major impact.** International experience shows that social protection systems are key to inclusive and people-centered growth. In the last decade, the Philippines has begun to recognize the role of social protection, with the expansion of new programs such as the Pantawid Pamilyang Pilipino Program (4Ps) and the social pension for indigent senior citizens. Yet while these schemes have had a positive impact on recipients, they remain small in relation to both the government budget and the scale of vulnerability faced by Filipinos throughout their lives.

**Moving towards a life cycle system social protection will provide a stronger foundation for tackling poverty and inequality.** Countries where social protection systems that had greatest impact on reducing poverty and inequality have been those with comprehensive social protection floors that protect all citizens from major life course risks, such as old age, disability, and raising a family. Building a system of this nature cannot be done overnight, but the Philippines can start making concrete steps now toward such a system. A pension system that benefits all Filipinos would be a major step in this direction.

## The economic challenges of old age

**Growing old in the Philippines comes with major challenges to earning a living.** As individuals age, remaining in employment becomes significantly more challenging, due to factors including ill health and disability, family responsibilities and age discrimination in the work place. This does not necessarily mean older people become inactive in a broader sense; many continue to contribute to their families and communities in a variety of ways, such as through caring for grandchildren and engaging in community activities which cannot be monetized. Many older people would also like to work longer, given the opportunity, but face barriers due to age discrimination and the mandatory retirement age of 65.

**Most Filipinos cannot currently expect to receive a pension in their old age.** Slightly over a quarter of senior citizens (29 per cent) receive pensions based on their previous working history (SSS, GSIS and others) with an additional 17 per cent of older people (1.4 million) expected to receive the social pension in 2016. In 2017, the new administration has allocated budget to cover 34 per cent of the older people (2.8 million). When the coverage of these schemes is combined and followed, around 40 per cent of Filipino older people are left with no pension at all.<sup>1</sup> Meanwhile, for many of those receiving a pension, benefits can be low – and this is not only limited to social pensioners. A third of SSS retirees (34 per cent) receive less than PhP 2,000 per month, and half (52 per cent) receive less than PhP 3,000.

**Most senior citizens look to their families to fill the gap left by work and pensions, but this support is often inadequate.** In general, the culture of *utang na loob* (debt of gratitude) remains strong in the Philippines, with most older people looking to their children for care and financial support. Over half (58 per cent) of older people receive income from children within the country, and a fifth (21 per cent) from children outside the country. Younger Filipinos also have a strong expectation that their children will provide financial support when they grow old and they see investing in children's education as the primary way to ensure old age income security. However, not all older people receive financial support from children and when they do, it is often inadequate to cover basic needs such as health expenditures. A major reason for this is the widespread poverty and vulnerability amongst Filipino families, with working adults forced to make a trade-off between supporting older people and investing in young children. Depending completely on their children for financial support also threatens the dignity of older persons - many of whom fear becoming dependent, and feel too proud or ashamed to ask for support.

### The state of the pension system

**Contributory pensions are key component of a comprehensive pension system, but coverage in the Philippines is unlikely to increase significantly in the near future.** Existing contributory pensions in the Philippines (of which SSS and GSIS are most significant) have a long history and currently around a third (29 per cent) of economically active Filipinos are making regular contributions to a pension. Various positive initiatives are underway to further increase coverage, however, a dramatic increase in coverage in the coming decades is unlikely. Two major barriers to expanding coverage are, first, that the majority of the Filipino workers are working in informal employment (estimated between 70 and 75 per cent) and, second, that many workers simply do not have sufficient disposable income to save for a pension. International experience shows that in countries with high levels of poverty and informality, tax-financed social pensions are essential to increase pension coverage.

**The social pension for indigent senior citizens has in some way closed this gap, but does not go far enough.** Two main issues limit the impact of the social pension. First, the means-tested nature of the scheme excludes – by design – a large proportion of vulnerable older people whose

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<sup>1</sup> Given that some older people may be in receipt of more than one pension, total coverage may be lower in reality.

incomes are too meagre to contribute to social security earlier in their lives, but who fail to meet the strict eligibility criteria for the current social pension. Targeting errors also mean many of the very poorest older people are left out. Second, the benefit level of PhP 500 is low relative to both Filipino and international benchmarks, meaning the scheme provides a limited level of income security.

### The rationale for a universal pension

**A universal social pension would close the pension coverage gap and provide a strong foundation for the development of the pension system.** Universal social pensions are tax financed schemes that guarantee a minimum pension to all citizens and/or residents over a specified age. They exist in several countries across the region (such as Brunei, Thailand, Timor-Leste and Vietnam) and have proven to provide one of the simplest and most effective ways of ensuring all citizens receive a pension in old age. The advantages of a universal approach are summarized in [Box 1](#).

#### Box 1: Why universal?

Universal pensions have several advantages compared to the means-tested approach currently used for the social pension for indigent senior citizens.

- **All poor senior citizens will be reached:** well established universal pensions have virtually no exclusion errors.
- **It will provide security for low-income informal sector workers:** this can be complemented by contributory savings.
- **Eligibility criteria are transparent and easy to understand:** this creates less space for corruption and clientelism.
- **A right; not a gift:** rather than feeling a sense of shame at being poor, recipients receive their pension with dignity.
- **Strong political support:** as an entitlement for all Filipinos universal pensions can gain broad-based political support.
- **Cheaper to implement:** the simple and transparent eligibility criteria for universal pensions results in lower administration costs.

**A universal social pension would recognize the contributions made by senior citizens throughout their lives, financial or otherwise.** Today's senior citizens have contributed to the nation in all manner of ways throughout their lives: by paying taxes, by contributing to the growth of the economy and by raising future generations of Filipinos. In this way, a universal pension can be seen as a way of systematising the culture of *utang na loob*.

**In terms of impact, the scheme would support a dignified old age for all Filipinos, while boosting a wider set of developmental outcomes.** Universal social pensions promote a sense of dignity, which is often lacking when older people have to depend exclusively on their children for support. In both China and Mexico research has found that social pensions contribute to a reduction in depressive symptoms in later life. Beyond older people, universal pensions also contribute to a variety of positive developmental outcomes that affect multiple generations, including:

- *Reducing poverty and inequality:* Pensions are often central to efforts to reduce inequality and strengthen inclusive growth by sharing the financial risks of old age across society. Simulations show that a universal pension in the Philippines would have immediate impacts on reducing the Gini coefficient by nearly one percentage point, while the same scenario would reduce the Palma index by 4.7 per cent (from 2.76 to 2.63).
- *Transformative support to ordinary families:* The regular income from pensions is often invested in boosting family livelihoods and building the skills of future generations. Universal pensions have been found to reduce child labor, increase school enrollment and support families to invest in livelihood activities.
- *Stimulating the economy:* The macro-economic impact of a universal pension would be particularly large for agricultural activities and for boosting household consumption. In both China and Thailand, social pensions have been used as a channel for governments to boost household consumption, especially in times of crisis.

### **A universal social pension in the Philippines could lift over 3 million Filipinos out of poverty.**

Simulations show that a universal social pension of PhP 2,000 for all older people (60+) would lead to a reduction in the national poverty rate by three percentage points. This would constitute a major “day after” impact relative to the limited fall in poverty over the last 15 years. It would also lead to 3.2 million Filipinos – old and young – being lifted above the poverty line and take the current administration a good way towards its poverty reduction goals. These simulations do not take account of multiplier effects within local economies, which could lead to further reductions in poverty.

### **Design, cost and financing**

**A key design decision for a universal pension is whether or not to exclude other pensioners (e.g. GSIS, SSS etc).** The simplest option available would be to provide a benefit to all older people over the age of 60, regardless of other pension income. This approach would have the lowest administrative costs, and be substantially less burdensome to implement than the current social pension for indigent senior citizens. An alternative is to exclude older people who are already receiving contributory pensions, an approach called “pensions testing”. This should be relatively straightforward to implement; however, it risks creating a sense of unfairness amongst pensioners that have been excluded, and could lead to perverse incentives to save into a contributory scheme. A middle way would be to only exclude some pensioners (e.g. SSS) or use a taper that gradually withdraws the social pension entitlement for those with other pension income.

**A universal social pension close to the poverty line would be an affordable ambition for the Philippines in the medium term.** A universal social pension of PhP 1,500 per month providing an income close to the poverty line would cost around 1 per cent of GDP if provided to everyone over 60. This level of expenditure is not small, but is less than other emerging economies spend on social pensions, including Brazil, Georgia and South Africa.

**There are also lower-cost options that would allow the country to start expanding a universal social pension in the short term.** Budgetary constraints mean it may take some time to secure financing for the optimal scenario for a social pension. In this context, a more modest approach of

simply expanding the current social pension to all older people aged 60 and over would cost approximately 0.3 per cent of GDP (PhP 48 billion). This is significantly less than the PhP 142 billion allocated to pensions for groups including armed forces, police, judges and others under the Pension and Gratuity Fund (PGF) for 2017. Indeed, between 2016 and 2017 the PGF budget has increased by PhP 32 billion which would be enough to universalize the current social pension when supplemented with the PhP 18 billion already allocated for the social pension in 2017. The cost of a universal pension could be kept stable over time, while still maintaining the purchasing power of the benefit.

**A variety of options exist to create fiscal space for a universal pension.** There is already broad recognition of the need to increase government revenue to meet priority expenditures including social protection, and – with political will – there appears to be “ample fiscal space” to do so. A universal pension aligns closely within the objectives of the proposed tax reform agenda to put more money in people’s pockets while making the system of tax and spend more progressive. There are also options not included in the tax reform agenda that could help build fiscal space. In the longer term, a universal pension might provide a simple and pro-poor alternative to VAT exemptions for senior citizens, although a move in this direction needs to be taken with caution.

## Recommendations

- A universal pension should be recognized as a priority policy within the country’s socio-economic agenda
- In the **short term**, by 2019, the current social pension should be expanded to cover all senior citizens, possibly with some form of pensions test.
- In the **medium term**, the country should work to increase the benefit level of the universal pension to provide genuine adequacy for older people.
- While universal pensions are relatively simple to administer, systems for implementation will need to be adapted for an expanded scheme to ensure adequate service delivery.
- A universal pension should be seen as a stepping stone to building a comprehensive social protection floor that addresses the range of life cycle risks (including disability), which is complemented by effective and sustainable contributory schemes.
- A universal pension should also be complemented by initiatives to support people to work into later life, including combatting age discrimination in the work place, and ensuring the labor market provides appropriate work for older people.

# INTRODUCTION

**The coming decades provide both opportunities and challenges for improving the living standards of Filipinos.** Continued economic development has the potential to provide higher living standards and greater security for the population, but this will only happen if growth is shared equitably. To date, the Philippines' record in ensuring inclusive growth has been relatively weak, with economic growth having only a modest impact on reducing poverty and being accompanied by rising levels of income inequality. New approaches will be needed if this is to change. In the meantime, the shape of the demographics of the Philippines is changing. Falling fertility rates and rising life expectancy mean that the country's population is growing older, a process which will result in changing priorities for policy making.

**Effective social protection policy will be essential to ensuring inclusive growth and responding to an ageing population.** One of the cornerstones to reducing poverty and inequality is providing adequate protection to people against the risks they face throughout their lives, from the economic demands of raising a family, to the shock of a workplace injury, and the stresses created by ill health, disability and old age. Despite the long history of the social protection system, for most Filipinos it plays a limited role in supporting them in these circumstances, with most looking to their families for protection. The situation contributes to many families being left behind. In the last decade this has started to change. The Pantawid Pamilyang Pilipino Program (4Ps) has begun providing a safety net for some of the poorest families, while the social pension has provided some level of old age income security for a portion of those left out by contributory social insurance pensions. These initiatives have, nevertheless, only gone so far and further investment is essential to provide a basic social protection floor for all Filipinos.

**In this context, this report addresses the question of how to ensure all Filipinos can live their old age with a minimum level of income security.** Old age is undoubtedly one of the biggest economic challenges that individuals face during their lives. It is virtually a universal concern, given that most people hope or expect to reach old age, and will become even more relevant as the population ages. No country can expect to tackle poverty and inequality in an equitable and sustainable way, without addressing the issue of income security in old age.

**The report focuses on the question of whether a universal social pension would be feasible in the Philippines.** The rationale for this focus stems from the identification of various challenges in the implementation of the existing means-tested social pension in the Philippines, and the example of other countries in the region and the world that have implemented universal social pensions. The report therefore asks: would such an approach be appropriate and feasible in a country like the Philippines?

**In addressing this question, the report tackles four key issues.** The first section asks why strengthening the pension system is a priority. This involves exploring evidence on the economic challenges Filipinos face in their later years, but also how these challenges impact the lives of people of all ages. The second section provides an assessment of the state of the pension system, and the future prospect for increasing coverage and adequacy of both contributory and non-contributory schemes. The third section explores the rationale for a universal social pension, describing its function within the pension system, and the impact that could be anticipated from its implementation. The fourth and final section describes the various design options available for a universal pension (and their trade-offs) and evaluates which scenarios would be affordable in the short, medium and long term.

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# METHODOLOGY

The analysis presented in this study is based on a variety of sources, including stakeholder consultation, literature review, primary research and secondary analysis of existing data sources.

**At the core of the analysis was a set of bi-lateral consultations undertaken with key stakeholders working in the social protection and ageing sectors.** Most of these consultations were undertaken by a small team of staff from COSE and HelpAge International in July 2015, with follow-up and further consultations undertaken by COSE subsequently. The consultations were used for various purposes including: gaining an understanding of the wider context relating to social protection and old age in the Philippines, seeking feedback on the idea of a universal pension in the country, and gaining knowledge and access to existing literature and data sources.

**This stakeholder consultation was complemented by a review of existing literature relating to old age income security and social protection.** Literature included various studies already collated by COSE as part of its research and advocacy work, resources identified by stakeholders during consultation, and other documents identified through web-based search engines. It was also complemented by various literature already collated by HelpAge as part of its management of the website [www.pension-watch.net](http://www.pension-watch.net), a global web-based knowledge hub on pension policy, focusing on social pensions.

Two pieces of new research were included as part of this analysis:

**Qualitative research was conducted with Filipinos of younger ages, who have not yet reached the age of 60.** The rationale for this focus was that, while COSE and HelpAge have extensive experience of engaging with older people's concerns relating to old age, less attention has been given to the perspectives of those who were not yet old yet bear a significant degree of responsibility towards providing for the wellbeing of older persons in the country. As such, the underlying intent of this research component was to provide a preliminary examination of the views of working-aged Filipinos as concerns ageing in the country, the underlying dynamics important to them, and their opinions on the place of social pensions. Conducted by the Social Development Research Center at La Salle University (Manila), this study component interviewed respondents between the ages of 20 to 59 (N=70), divided between two groups - younger and middle age respondents, and selected to maintain gender balance between male and female respondents. Research sites were chosen across the country's main island groups (Luzon, Visayas, and Mindanao), spanning three provinces (La Union, Cebu, and Misamis Occidental), and further divided into rural and urban settings to maximize national views. Interview settings consisted of one urban area and one rural barangay sampled from each of the 3 provinces. In each province, the rural setting community was selected

randomly from the municipalities (towns). The 2010 census population data of the Philippine Statistics Authority was used to select municipalities and barangays. Detailed methodology is available in the separate qualitative report from HelpAge International. In-depth Group Interviews were conducted in controlled focus group settings with structured interview guides and assisted with PowerPoint presentations, note takers, and audio recording devices. Analysis was conducted using NVivo analysis software, with codes generated using consensus validation. All respondent names are anonymized and selected using the 2005 list of most common names in the Philippines provided by the Philippines Statistics Authority.

**Existing national datasets were analyzed to better understand the situation of older people, and to estimate the impact of a universal social pension.** Descriptive analysis provided information on the employment patterns of older people, the coverage and distribution of existing social protection benefits, and further data on the income sources of older people. Surveys analyzed for this purpose included the Family Income and Expenditure Survey 2012 (FIES), the Labor Force Survey 2012 (LFS), the Annual Poverty Indicators Survey 2013 and 2014 (APIS) and the Philippine Survey of Older Persons 2007 (PSOA). Data from the APIS (2013 and 2014) was also used to undertake microsimulation on the impact of a universal pension on poverty and inequality. Finally, a simulation exercise was undertaken using a Social Accounting Matrix (SAM) model to estimate the expected macro-economic multipliers that could be expected from a universal social pension. This model was based on data from the FIES 2012.

## 1

# THE NEED FOR A ROBUST PENSION SYSTEM

**The current Philippine pension system leaves around 40 percent of the older population with no pension at all.** This is a situation that is unlikely to change dramatically over the coming decades without any new thinking on how to reach universal coverage. But why should addressing this issue be a priority for the Philippines? This initial section of the report explores the role of pensions by focusing on two key issues. The first discussion considers the role of the social protection system and how it should develop to support inclusive growth, and the role of pensions within this framework. The second discussion focuses on the variety of economic vulnerabilities Filipinos face as they grow old, and why pensions are indispensable to address this vulnerability.

## 1.1 POVERTY AND INEQUALITY IN THE PHILIPPINES

**Levels of poverty and inequality in the Philippines are high, and persistent, and this has been recognized by the current administration.** For more than a decade, official statistics have suggested that around one quarter of the population live below the poverty line with little major change. Latest figures from the last semester of 2015 suggest a decline in the poverty rate to 21.6 per cent yet, methodological issues aside, the quality and sustainability of this reduction remains to be seen.<sup>2</sup> The current administration has set an ambitious target of reducing levels of poverty to 17 per cent by 2022, which would mean unprecedented progress in efforts to reduce poverty in the country. In the meantime, levels of inequality also remain high in the country, and higher than many other countries in the ASEAN region such as Indonesia, Vietnam, Thailand and Cambodia.<sup>3</sup>

**Headline poverty figures also hide the fact that more Filipinos fall in and out of poverty over time.** Various studies have found that close to half of the Philippine population spend some time in poverty over a 5-10 year period. Analysis of panel data from the FIES by Paqueo et al has found that between 2004 and 2010, 48 per cent of Filipino households spent some time in poverty.<sup>4</sup> Indeed, a substantial proportion of those households that are fortunate to escape poverty fall back into poverty a short time afterwards. Similar analysis found that, of those households that escaped

<sup>2</sup> Philippine Statistics Authority, "Poverty Incidence among Filipinos Registered at 21.6% in 2015," 2016, <https://psa.gov.ph/poverty-press-releases/pr/2015-Full-Year-Poverty-Statistics>; Maria Victoria R. Raquiza, *How Meaningful Are the Periodic Poverty Reports?*, 2016.

<sup>3</sup> Jose Ramon G. Albert and Arturo Martinez, "Are Poverty and Inequality Changing?," *Rappler*, February 25, 2015, <http://www.rappler.com/thought-leaders/84833-poverty-inequality-data>.

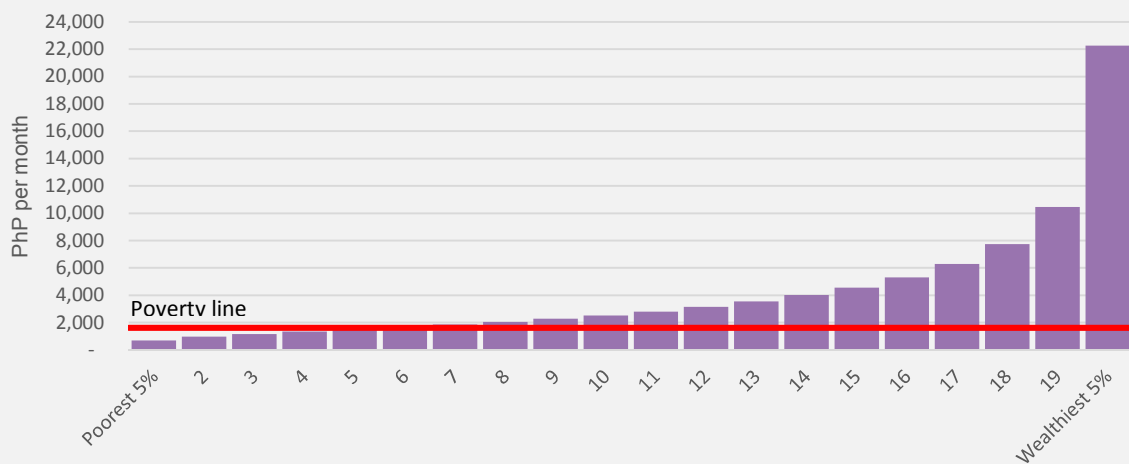
<sup>4</sup> Vicente B. Paqueo et al., "Analysis of the Near-Poor Challenge and Strategy Development Ideas," 2014, <http://slideplayer.com/slide/5267448/>.

poverty between 2003 and 2006, over a quarter had fallen back into poverty by 2009.<sup>5</sup> These surveys also hide the moves in and out of poverty that take place between surveys, that may occur seasonally or for a period of months when a crisis hits. Vulnerability to poverty also goes beyond the bottom half of the income distribution, and old age can be emblematic of this. People who have had a reasonable income during their working lives, can often find it to fall dramatically when they reach old age and can no longer work, or if they are widowed.

**One major reason for this is that - for the poorer 70 per cent of the population – income levels are relatively similar.** Figure 1.1 shows the income distribution of the Philippines in 2013, presenting the per capita income of each 20<sup>th</sup> of the population (ventile) from lowest to highest income group. This is similar to imagining the population of the country was represented by 20 individuals, with each bar representing the income of that individual. Average incomes range from PhP 693 per month for the poorest 5 per cent of the population, to PhP 22,275 per month for the wealthiest. Particularly striking, however, is that the income distribution of the country is relatively flat until the far right of the chart (approximately the top third). To put this in perspective, the poverty line has been added to the chart, which was PhP 1,604 in 2013. As noted by Raquiza, in many ways the poverty line can be seen as “driving a wedge” that artificially divides a relatively homogenous part of the population into “poor” and “non-poor”.<sup>6</sup> The result is that relatively modest household shock – such as unemployment, old age, or death of a breadwinner – can result in them falling in to poverty.

**Figure 1.1: A minority of Filipinos live far above the poverty line**

*Average monthly per capita income by ventile (groups of 5 per cent of the population), 2013*



Source: APIS 2013 (Authors' calculations)

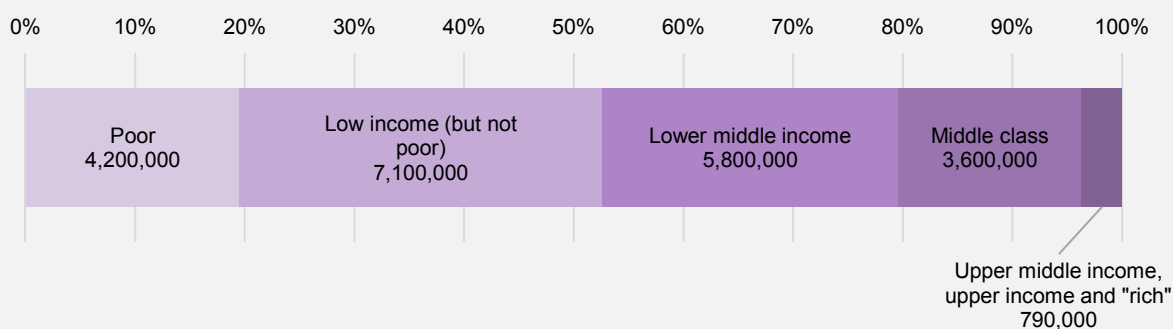
<sup>5</sup> Andrew Shepherd et al., *The Chronic Poverty Report 2014-2015: The Road to Zero Extreme Poverty*, 2014.

<sup>6</sup> Maria Victoria R. Raquiza, “The Philippine Poverty Line: Does It Really Tell Us Who Is Poor?,” *Philippine Journal of Social Development* 4 (2012): 56–57.

Indeed, a more sophisticated categorization of the economic situation of Filipinos has identified over half of the country's population as either low income, or poor. Analysis by Albert, Gaspar and Raymund, using the FIES 2012, developed a set of economic categories in order to identify who constitute the "middle class" of the country. The analysis found that – contrary to popular perception – the middle class are not found in the middle of the income distribution, but towards the top, constituting less than 20 per cent of Filipinos. In the meantime, the authors found that over half of households could be classed as either poor (below the national poverty line) or low income, with an income below PhP 15,780 for a family of 5 in 2012.<sup>7</sup> Many of these low-income households are those who may not be poor today, but are at significant risk of falling in and out of poverty over time.

**Figure 1.2: Fewer than 1 in 5 Filipinos are defined as "middle class"**

*Proportion of households in the Philippines by economic group (2012)*



*Source:* Jose Ramon Albert, Raymond Gaspar, and MJ Raymundo, "Who Are the Middle Class?," *Rappler*, July 8, 2015.

**These high levels of poverty and vulnerability are reflected in Filipinos' own assessment of their situation.** Surveys undertaken by the IBON foundation have repeatedly found that around 7 in 10 Filipinos consider themselves to be poor. Asked about the situation of their families today, a survey in 2015 found that 65 per cent of people responded "poor", while the figure was 71 per cent in the latest survey in September 2016.<sup>8</sup> Subjective measures of this nature are not directly comparable with quantitative measures of poverty used by the Philippine Statistics Authority (PSA). Nevertheless, they do contribute to a broader picture that poverty and vulnerability in the Philippines are much more widespread than suggested by headline poverty rates.

**Poverty measurement based on household survey data provides a mixed picture of whether older people are more or less poor than other age groups.** Using the official methodology employed by the PSA, analysis of the APIS 2013 suggests that just 16 per cent of older people over 60 years old live in poverty, compared to 25 per cent of the population as a whole. However, there is

<sup>7</sup> Albert, Gaspar, and Raymundo, "Who Are the Middle Class?"

<sup>8</sup> IBON Foundation, "Most Filipinos Rate Themselves Poor," 2015, <http://ibon.org/2015/03/ibon-survey-most-filipinos-rate-themselves-poor>; IBON Foundation, "7 out of 10 Filipinos See Themselves as Poor," 2016, <http://ibon.org/2016/10/ibon-survey-7-out-of-10-filipinos-see-themselves-as-poor>.

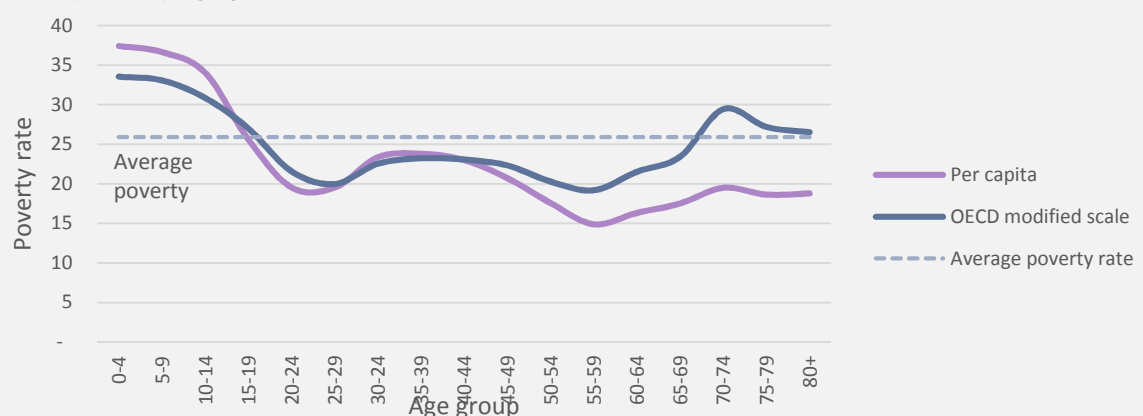
strong evidence that the methodology used by the PSA may underestimate the extent of old age poverty. Box 2 describes how small modifications to the assumptions used for poverty measurement can result in poverty of older people appearing much higher. In reality, limited analysis has been undertaken in the Philippines of what are the most appropriate assumptions to measure old age poverty. Until such analysis has been done, age-disaggregated poverty statistics should be treated with some caution. These issues also highlight the fundamental limitations of household survey data for measuring poverty of different age groups. It is for this reason that the later parts of this section seek to build a more comprehensive picture of the adequacy of the variety of income in old age.

### Box 2: Old age poverty statistics are strongly influenced by the assumptions used

Poverty measurement in the Philippines uses what is often called a “per capita” approach. In simple terms, this takes the total income of a household, divides it by the number of household members, and compares this per capita income to the official poverty line. If this per capita income is lower, the household is defined as being poor. However, this approach makes implicit assumptions that may be biased against older people. They include the assumption that people of all ages have the same consumption needs, and that bigger households have no economies of scale. In order to take account of these factors, many countries including those in the OECD have adopted alternative “equivalence scales” that aim to take account of these two factors. In order to test how sensitive old age poverty is to these assumptions, Figure 1.3 compares poverty by age group using the standard “per capita” approach versus a common equivalence scale used in OECD countries (the OECD modified scale). Strikingly, while poverty levels for older people appear low when using the standard assumptions, they are much higher when using alternative equivalence scales. Older people aged 70 and over are found to be poorer than average, and significantly poorer than adults between the age of 20 and 59. The extent of poverty of children is also lower when alternative equivalence scales are used.

**Figure 1.3: Alternative methods of poverty measurement suggest old age poverty could be higher**

*Poverty rate by age group, with alternative equivalence scales*



*Source:* APIS 2014. The OECD modified approach assigns a value of 1 to the household head, of 0.5 to each additional adult member and of 0.3 to each child.

## 1.2 GAPS IN THE SOCIAL PROTECTION SYSTEM

**The Philippines has a long history of social protection, but until recently the system provided little security for those living below or close to the poverty line.** The longest standing components of the social protection system are the Government Social Insurance Scheme (GSIS) and the Social Security System (SSS). These follow a typical social insurance model where employees and employers make contributions in order to build an individual's entitlement to protection against risks including old age (retirement), disability and death of a breadwinner (survivorship). These two schemes are complemented by the Employee's Compensation and Insurance Fund - covering work-related risks such as illness, injury and death. The Philippines is one of many low and middle income countries that introduced such schemes in the twentieth century, under the assumption that they would steadily expand as levels of formal employment grew, to reach levels of coverage now found in many OECD countries. However, pervasively high levels of informality and poverty mean that coverage of these schemes has generally been limited to a minority of the population working in the formal sector. This situation - which is discussed in greater detail below - reflects that of most low- and middle-income countries, in the South East Asia region and beyond.<sup>9</sup>

**The introduction of new social welfare schemes has gone some way to support those facing greatest risk of poverty.** At the forefront of this development has been the introduction of the Pantawid Pamilyang Pilipino Program (4Ps) which has dramatically expanded in coverage since its introduction over a decade ago, from 6,000 families in 2007 to 4.6 million in 2016. The introduction of a social pension for indigent senior citizens has also made a contribution to this story, now set to cover 1.4 million senior citizens in 2016.<sup>10</sup> The expansion these social protection schemes has signaled a commitment to reducing poverty and inequality in the country, and a recognition of the limits of contributory social insurance for this purpose. They have also followed a growing global shift of emphasis towards tax-financed cash transfers as a priority intervention for tackling poverty and inequality in low- and middle-income countries.

**Despite these successes, spending on these social protection schemes is relatively modest relative to the size of the economy and the government budget.** Together, these schemes constitute 71.3 billion PhP in the 2016 budget, 62.6 billion for the 4Ps and 8.7 billion for the social pension. While large sums of money in absolute terms, relative to the Philippine economy they are quite modest, constituting just 2.1 per cent of the 2016 budget and 0.5 per cent of GDP.<sup>11</sup> These figures are small compared to the levels of expenditure on social protection in OECD countries, but also to spending in developing countries such as Brazil and South Africa, that have seen some of the greatest impacts of social protection.

**Moreover, their focus on the poorest leaves a major "missing middle" in the social protection system.** Currently the 4Ps aims to target the poorest 20 per cent of household in the Philippines,

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<sup>9</sup> World Bank, *Live Long and Prosper: Ageing in East Asia and Pacific* (Washington, DC: World Bank, 2016).

<sup>10</sup> Department of Budget and Management, *People's Budget 2016*.

<sup>11</sup> Department of Budget and Management, *People's Budget 2016*; International Monetary Fund, *World Economic Outlook Database, October 2016*, 2016.

while the social pension has budget to cover the poorest 17 per cent of older people in 2016. Underlying this vision is the idea that social welfare should be a temporary form of support, or one limited to the most destitute. In the case of the 4Ps, the vision of the scheme is that recipients should eventually graduate out of poverty, and therefore no longer need support. With the social pension, the eligibility criteria identify older people who face extreme levels of disability and receive little or no support from their families. By focusing on the very poorest these schemes therefore provide little protection for those who are vulnerable to poverty, but not necessarily below the poverty line today. It also provides little protection for low income informal sector workers whose incomes may be just enough to make ends meet, but may be vulnerable to shocks that can push them in to poverty. On the other hand, for this group of people, low levels of disposable income and informality mean that contributory schemes such as the GSIS and SSS are out of reach (which is discussed further in Section 2).

**The most effective way to cover this missing middle would be to move towards a more universal “life cycle” system of social protection in the Philippines.** A life cycle system of social protection is one that provides a package of cash transfers (contributory or non-contributory) that protect people against the various risks they face throughout their lives which can push them into poverty. Key risks covered by these systems tend to be the following:

- Those associated raising a **family**, including economic risks for parents (such as maternity) as well as the risks of the early years of a child’s life
- **Disability, sickness and old age** all of which can limit the extent to which individuals are able to engage in the labor force, also entail increased costs (such as healthcare, assistive devices and care and support)
- **Unemployment**, and underemployment

This approach differs from the current model of social protection in the Philippines in important ways. The poverty targeted “safety net” model of programs such as the 4Ps is designed around treating the symptoms of poverty, once individuals have been unfortunate enough to fall below the poverty line. In contrast, life cycle systems aim to protect individuals and families from the various risks they face so they do not fall into poverty in the first place. These lifecycle risks are by no means the only ones that contribute to poverty. For example, they do not include covariate shocks such as natural disasters. Nevertheless, they are important risks all individuals, globally, are exposed to, and which can have substantial negative consequences. By providing protection against these risks – through pensions, disability and sickness benefits, and family grants – governments can help ensure a basic level of security for their populations.

**Notably, countries with the most effective social protection systems tend to be those with life cycle social protection systems.** OECD<sup>12</sup> countries – for example – spend a significant share of their

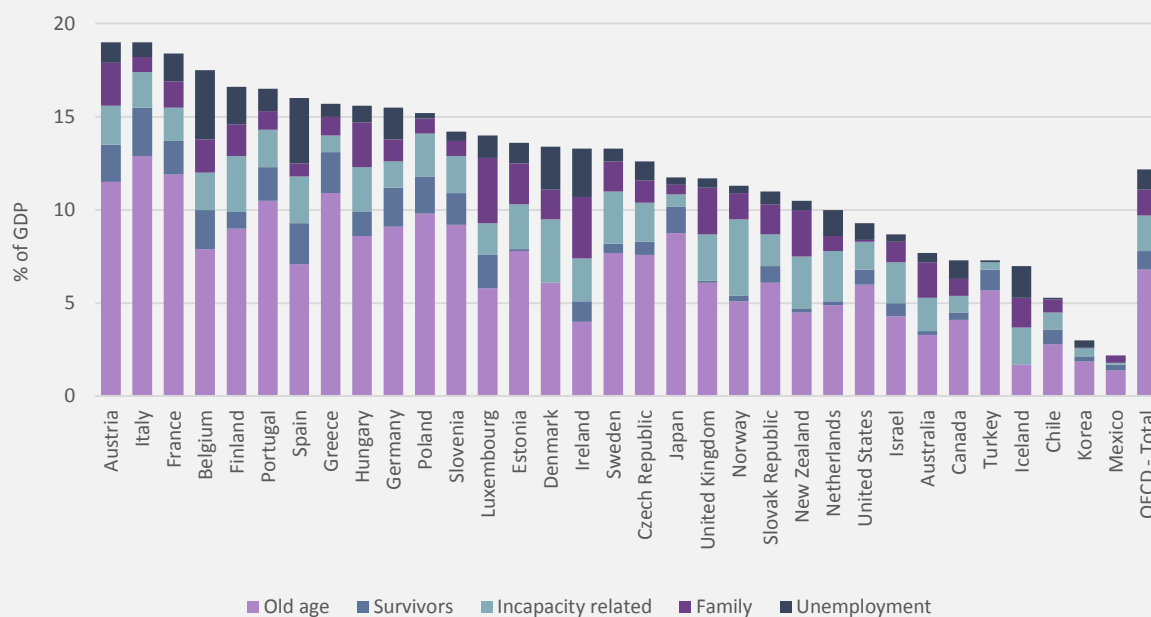
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<sup>12</sup> The Organisation for Economic Co-operation and Development (OECD) is an intergovernmental economic organisation with 35 member countries, founded to stimulate economic progress and world trade. Most of its members are high income countries.



budgets on social protection, and these systems are built around a package of life cycle systems. This is illustrated in Figure 1.4 that shows expenditure on social protection cash benefits in OECD countries. Not only are expenditures significant (12 per cent of GDP on average), but they tend to be divided between various different life cycle risks (old age, survivorship, disability etc.). The design of these systems varies quite substantially in terms of whether these cash benefits are financed by contributory schemes, or by tax-financed schemes.

Figure 1.4: Spending on social protection (cash benefits) in OECD countries, by type



Source: Organisation for Economic Cooperation and Development, "Social Expenditure: Detailed Data," *OECD Social Expenditure Statistics (Database)*, 2016, <http://dx.doi.org/10.1787/data-00167-en>.

**Adopting a life cycle approach to the social protection system in the Philippines would build on the logic that underpins existing social insurance schemes.** It is worth noting that the logic of a life cycle system already exists in schemes such as the SSS and GSIS, which cover a variety of the risks noted above. The issue – as will be explored throughout this report – is that these schemes currently have limited coverage. Creating a universal life cycle system would involve complementing the existing life cycle logic of these contributory schemes with tax-financed programs that provide protection for those with limited disposable income. This is not a process that will happen overnight. Building a system of this nature will likely entail greater investment, and will therefore need to be expanded progressively over time as resources become available.

**Strengthening a life cycle social protection system that protects all Filipinos would help the Philippines meet its commitments to expanding a social protection floor, which is embedded within the Sustainable Development Goals.** The Philippines is one of 185 member states of the International Labor Organization that adopted ILO Recommendation 202, calling for the expansion of national *social protection floors*. The recommendation articulated four social security guarantees covering health (1) and income security for children (2), people of working age (3) and older persons

(4). In line with this commitment, the Philippines is currently engaging in a multi-stakeholder Assessment-Based National Dialogue on Social Protection Floors supported by the ILO, which seeks to identify priority actions for moving towards a social protection floor. It is notable that – following Recommendation 202 in 2012 – social protection floors have since been embedded into targets on expanding social protection within the Sustainable Development Goals (in Goal 1 on ending poverty, under target 1.3, and in various other targets). In this respect, extending a life cycle social protection system will also support the Philippines’ ambitions to achieve these goals.

**Old age pensions are commonly a starting point in the development of universal life cycle social protection systems.** As can be observed above in Figure 1.4, in more established social protection systems, pensions tend to be the biggest single component in terms of cost. It is also notable that countries that have built comprehensive life cycle social protection systems often began with the expansion of pensions for older people. This was the case with many OECD countries such as Sweden, the UK and Australia where pensions were introduced in the early twentieth century as a starting point for more comprehensive systems.<sup>13</sup> Yet a similar trend has also emerged amongst low and middle income countries as diverse as Brazil, China, Nepal, South Africa and Timor-Leste that have been pioneers in the extension of life cycle social protection. To a large extent, the prominence of pensions comes down to the fact that old age is one of the greatest economic risks individuals expect to face in their lives, which is the topic of the next section.

### 1.3 WORKING INTO OLD AGE

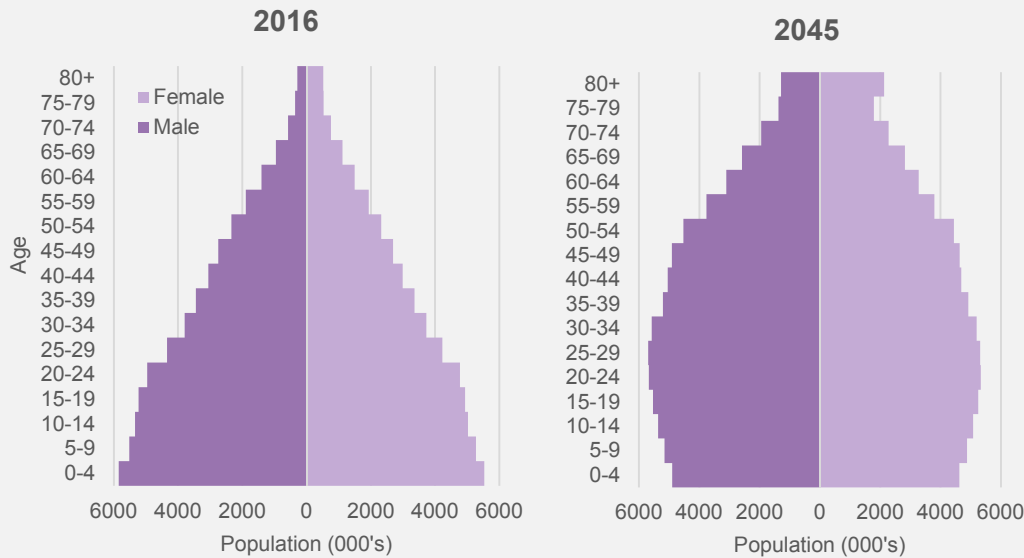
**Various economic and social developments over the past decades mean that more and more Filipinos can expect to reach old age.** Life expectancy at birth has risen from 55 years in the early 1950s, to around 69 years today, while an individual reaching the age of 60 today can expect to live for another 17 years.<sup>14</sup> This increase in life expectancy, teamed with reductions in fertility rates, means that the shape of the population of the Philippines is changing (Figure 1.5) and gradually ageing. According to population projections undertaken by the PSA, the number of Filipinos over the age of 60 is set to nearly triple in the next 30 years, from 7.6 million in 2015 to 22.6 million in 2045. Over the same period, the proportion of the total population over the age of 60 will double from 7.5 to 15.9 per cent.<sup>15</sup>

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<sup>13</sup> Stein Kuhnle and Anne Sander., “The Emergence of the Western Welfare State,” in *The Oxford Handbook of the Welfare State*, ed. Francis G. Castles et al. (Oxford: Oxford University Press, 2010), doi:10.1093/oxfordhb/9780199579396.003.0005.el

<sup>14</sup> United Nations Population Division, *World Population Prospects: The 2015 Revision* (New York, 2015).

<sup>15</sup> Philippine Statistics Authority, “2010 Census-Based Population Projections in Collaboration with the Inter-Agency Working Group on Population Projections.”

**Figure 1.5: The Philippine population is ageing***Population pyramids for the Philippines (2016 and 2045)*

*Source:* Philippine Statistics Authority, “2010 Census-Based Population Projections in Collaboration with the Inter-Agency Working Group on Population Projections,” accessed October 23, 2015, [https://psa.gov.ph/sites/default/files/attachments/hsd/pressrelease/Table1\\_8.pdf](https://psa.gov.ph/sites/default/files/attachments/hsd/pressrelease/Table1_8.pdf).

**While this trend is something to be celebrated, growing older can only truly be considered a success if Filipinos are able to live their later years with dignity and security.** Income security is vital for dignity in later life. In most cases, old age income security is achieved through a mix of income from work, formal pensions and financial support from family members. As it stands, however, a substantial proportion of Filipino older people find themselves in a situation of economic insecurity.

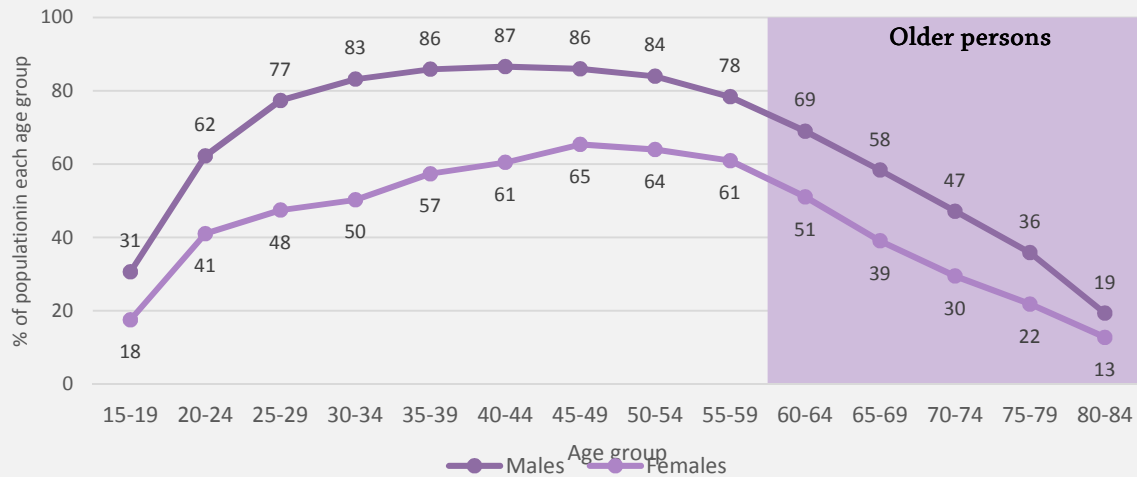
**It is clear that older Filipinos are significantly less likely to be in employment than people of younger ages.** Figure 1.6 shows the proportion of the population in employment by age group, based on data from the Labor Force Survey (LFS) (2012).<sup>16</sup> The clear picture is that levels of employment are lower at more advanced ages. On average one half of older men (55 per cent) over the age of 60 and a third of older women (35 per cent) are employed. The figure, nevertheless, highlights significant diversity amongst older people. While two thirds of men and one half of women are in employment in their early 60s, by their early 70s less than a half of men and a third of women are employed. Data from the LFS (2012) also shows that those individuals working at more advanced ages work fewer hours than their younger counterparts. Two thirds of employed people

<sup>16</sup> Employment refers to individuals who were reported to be either in paid employment or in self-employment during the previous week.

aged 15-59 (65 per cent) work more than 40 hours per week, but this applies to just half (48 per cent) of over 60s, and a third of over 75s (36 per cent).<sup>17</sup>

**Figure 1.6: The likelihood of being employed falls sharply after the age of 60**

*Levels of employment by age group*



*Source:* LFS 2012 (Authors' calculations)

**Ill health is one of the main drivers of reduced work in old age.** Data from the LFS 2012 shows that for the vast majority of older people outside the labor force, the reported reason for not working is “Too old, retired or permanent disability” (Figure 1.7).<sup>18</sup> This response includes factors that go beyond health alone, but it is clear that ill health is a significant part of the picture. Other data sources show that ill health and disability are major challenges for older people. The PSOA 2007 survey, for example, shows that a large proportion of older people have physical ailments that can make work more difficult. Over half of older people (54 per cent) report having arthritis, neuralgia or rheumatism, while a quarter (25 per cent) have back pain, and a just under a quarter have cataracts (24 per cent).<sup>19</sup> In the meantime, 15 per cent of older persons had difficulty in at least one of 6 “activities of daily living”, which is a measure of an individual’s functional capacity and imply a need for care.<sup>20</sup>

**For older women, family responsibilities are an important reason for not working.** Figure 1.7 shows half (52 per cent) of women who are outside the labor force at age 60-64 are not working due

<sup>17</sup> Authors' calculations based on LFS 2012.

<sup>18</sup> The Labour Force Survey questionnaire aggregates these three issues into one response category.

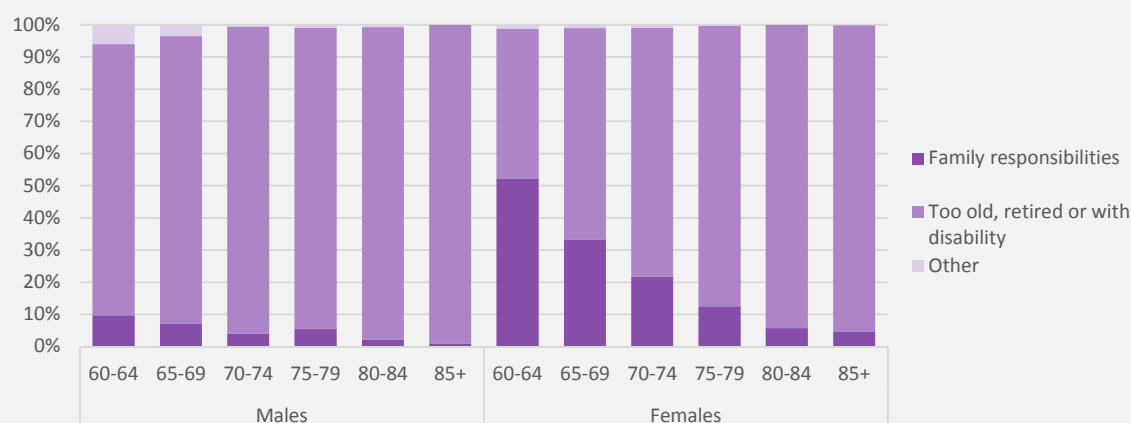
<sup>19</sup> Cruz et al., *Aging in the Philippines: Findings from the 2007 Philippine Study on Aging*, 52-53.

<sup>20</sup> Cruz and Camhol, “Family and State Roles in Promoting the Well-Being of Older Filipinos.” Activities of Daily Living surveyed in the PSOA 2007 include walking (around the house), eating, dressing, washing, using the toilet, standing/sitting and going outside.

to family responsibilities. This becomes a less significant reason at more advanced ages when health issues dominate. For many older women, these family responsibilities are often a continuation of the substantial role that they have played in caring for children, grandchildren and others within their families throughout their lives. Figure 1.6 above shows that levels of employment for women are low for all ages, and this is primarily due to family responsibilities. It is also a reminder that, even for those older people who withdraw from the labor market due to health issues and/or retirement, their time will often be reallocated to domestic responsibilities such as caring for grandchildren.

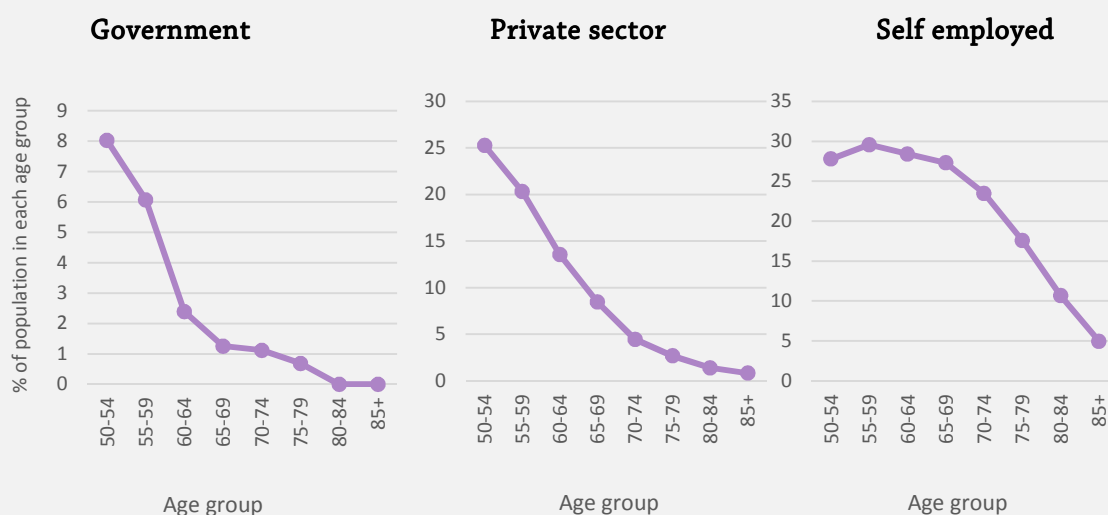
**Figure 1.7: Health issues are cited as the main reason for senior citizens not working**

*Reported reasons for not working in old age (2012)*



**Figure 1.8: The retirement age is more relevant for government employees than self-employed workers**

*Share of the population (by five-year age group) employed in three key sectors of work*



*Source: LFS 2012 (Authors' calculations)*

**Mandatory retirement policies and age discrimination also seem to have an impact on reducing work in old age.** For some people, beginning to receive a pension can be an opportunity to withdraw from the work force and focus on other things. Yet for others, leaving work is not a choice, but they are forced to due to mandatory retirement ages. Existing data is not complete enough to provide a comprehensive picture of this issue, but some indication is provided by the working patterns in different sectors by age. Figure 1.8 shows the proportion of the population by five-year age group working in different sectors of the economy, from age 50 upwards. Notably, the population employed in the government and private sector falls sharply around the age of 60, particularly in the case of government. While 8 per cent of people in their early fifties work in government, this figure falls to just 1 per cent by age 65-69, which is as a result of the mandatory retirement age of 65 in this sector. The picture for self-employed workers is quite different, with a more gradual reduction in levels employed in that sector, that is most pronounced after the age of 70. At least two factors may be at play here: The first is that mandatory retirement is not relevant for self-employed workers, while fewer are entitled to receive a pension (as discussed below). This means more are likely to continue to work as their sole source of income. The second is that some individuals may move from one sector (e.g. government or private sector) where there are no longer job opportunities, to self-employment.

**In general, work in old age is more likely to be in more vulnerable and lower paid sectors of work.** As suggested already in Figure 1.8, self-employment is far more common amongst older workers. Over half (53 per cent) of those employed over the age of 60 are working in self-employment, compared to just a quarter (25 per cent) of workers aged 15-59. Similarly, 44 per cent of older workers are in the agricultural sector, compared to 30 per cent of younger workers (15-59).<sup>21</sup> A significant driver of this trend is that individuals in these sectors are less likely to have access to alternative income – such as a pension. This means they have little other option but to keep working. In the meantime, there is also a trend across the population that younger workers are more likely to work in the private sector, and in services, while relatively older workers are more likely to be self-employed and working in agriculture. One important driver of this pattern is likely to be the relatively lower levels of formal education at more advanced ages.<sup>22</sup>

## 1.4 THE ROLE OF THE FAMILY

**It is clear that families play an important role in supporting their older family members as working becomes more challenging.** Various scholars in the Philippines have described how “the family is the elderly’s social security mechanism”, reflecting the culture of “utang na loob” (debt of gratitude) in the country.<sup>23</sup> One indicator of the close relationship that older people have with their families is data on living arrangements. As shown by (Figure 1.9), close to three in four older people live in the same household as one or more of their children which indicates that the day-to-day lives of older people and their families are strongly intertwined. In fact, only 5 per cent of older women

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<sup>21</sup> Authors’ calculations based on LFS 2012.

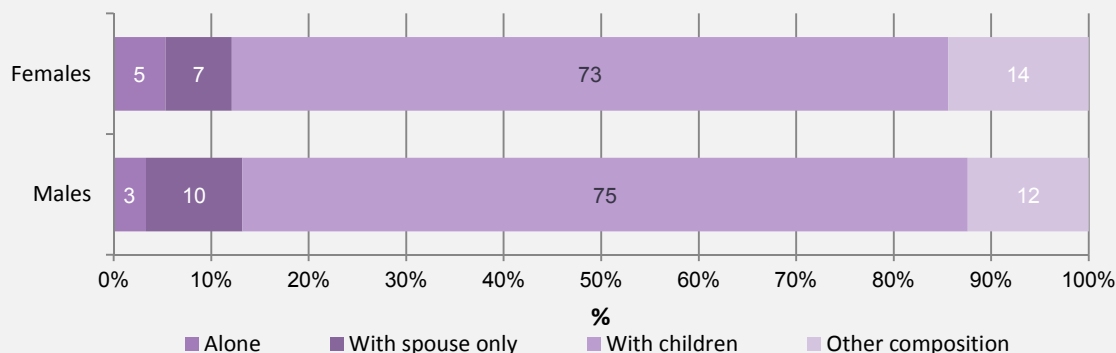
<sup>22</sup> Cruz and Camhol, “Family and State Roles in Promoting the Well-Being of Older Filipinos.”

<sup>23</sup> Cruz and Camhol, “Family and State Roles in Promoting the Well-Being of Older Filipinos.”

and 3 per cent of older men live alone, with the remainder are living with just their spouse or grandchildren.

**Figure 1.9: Nearly 3 in 4 senior citizens live with their children**

*Living arrangements of older persons (60+)*



*Source:* Grace T. Cruz and Armand N. Camhol, “Family and State Roles in Promoting the Well-Being of Older Filipinos,” in *Aging in Asia-Pacific: Balancing the State and the Family*, ed. Amaryllis T. Torres and Laura L. Samson, 2014.

**Younger Filipinos expect that they will depend on financial support from their children when they grow old.** As part of the qualitative component of this study, discussions were held with younger Filipinos about how they hoped or expected to secure a minimum income in old age. Across the board, participants of in-depth interviews identified that children would be central to ensuring they receive financial support in old age. This was commonly linked to the need to invest in education, and that the strengthened human capital of their children would ensure they have a secure old age. One of the clearest articulations of this mentality was from a young woman in Panaon:

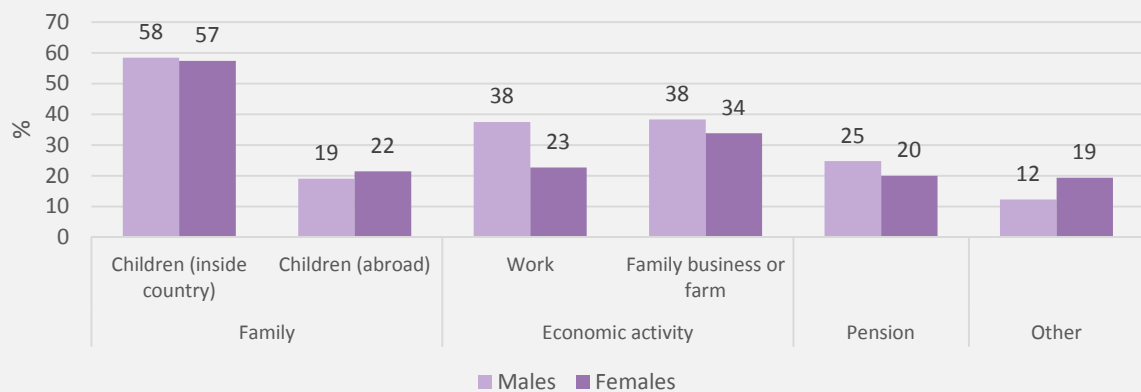
*“Paiskwelahon gyud ug tarong ang atong anak. Mao gyud ang atong tagaan ug mayong kaugmaon kay sa anak lang man ta makabawi. Makakaon tag lami sa umaabot nga mulampos ang atong mga anak kay naa nay trabaho. Naa na silay kaugalingon nilang pangita. Mao ra gyud nay akong gipangandoy karong mga panahuna. Kung naa na silay kita naa na silay ikahatag sa pamilya. Mao ra gyud na akong gipangandoy sir.”* (Our basic task is to get an education for the children that really will give a good future because only the child can return the investment. We will be able to eat delicious food when the child has work if the (child) has his/her own source of income. This is what I really long for at this time. If they have an income, they can share with the family. That’s what I’m really longing for, Sir.)

**Bea P., Young Female, Pana-on**

**Despite this strong social norm, however, family support is just one of a wide range of income sources for older people.** To help illustrate this, Figure 1.10 presents the different sources of income reported by older people in the PSOA 2007 survey. Of all sources of income, children inside the country are reported most often, with 58 per cent of men and 57 per cent of women receiving income from them. Nevertheless, this means that over 40 per cent of older people do not receive income from children within the country. Roughly 20 per cent of older people receive income from children abroad, but this still suggests at least 20 per cent of older people receive no income from

children at all. In the meantime, older people report a variety of other sources of income from various different kinds of work and pensions.<sup>24</sup> There are ways in which this kind of data may under-represent the real extent of income and resources from children to their parents in old age. Evidence from Thailand, for instance, suggests that much of the material support shared within a household (such as food and housing) may not be reported as “income”.<sup>25</sup> Similarly, income from farm or family businesses may – in some cases – represent earnings primarily from the work of children, that is then shared with older people. The data, nevertheless, shows it is a simplification to see family as the only source of income for older people.

**Figure 1.10: Sources of income for older people (60+) by sex**



Source: Grace T. Cruz et al., *Aging in the Philippines: Findings from the 2007 Philippine Study on Aging* (Quezon City: University of the Philippines Population Institute, 2016).

**Children are not necessarily the main source of income for older people, even at very advanced ages.** Figure 1.11 shows what older people consider to be their main source of income, according to the PSOA 2007 survey. While children are a relatively common source of income, only 30 per cent of older people report they are the main source of income (22 per cent for children in the country, and 8 per cent for children abroad). For most older people, economic activities represent the largest share at 45 per cent (25 per cent for work, and 20 per cent for family business or farm). Around one fifth of older people (20 per cent) report pensions as their main source of income, suggesting the majority of those who receive a pension count it as their main income source. This dynamic changes by age, with income from children becoming more important at ages 70-79 and 80+. The same applies to pensions. This suggests that as older people age and are less able to work, family and social security benefits become a more important source of income. Nevertheless, even at these advanced ages, children constitute the main source of income for only a minority of older

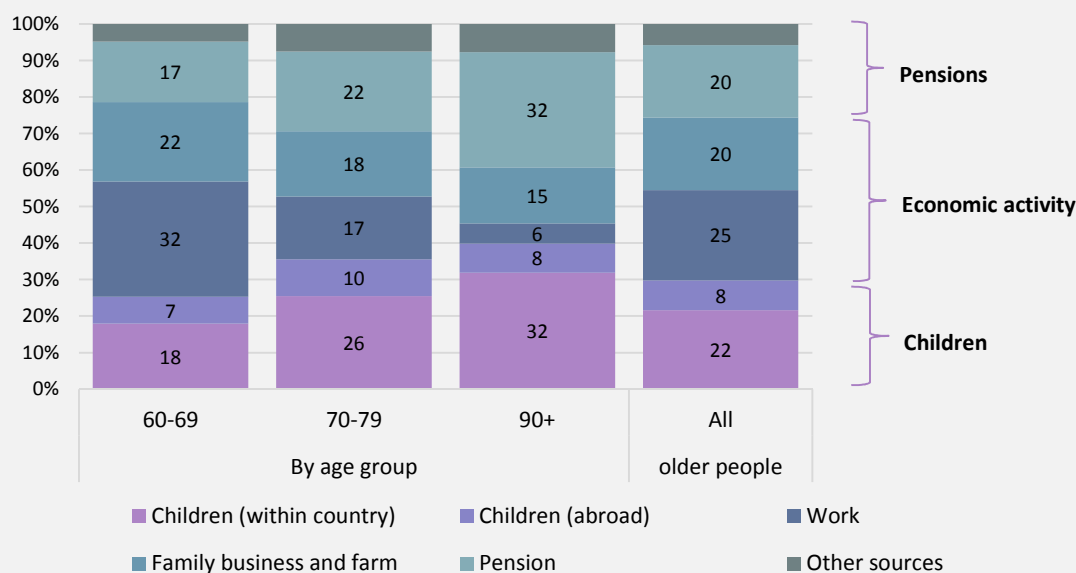
<sup>24</sup> It should be noted that this data does not include the social pension as the scheme was not introduced until 2010.

<sup>25</sup> John Knodel et al., *The Situation of Thailand's Older Population: An Update Based on the 2014 Survey of Older Persons in Thailand* (Chiang Mai, 2015).



people (around 40 per cent). Thus, while the tradition of “utang na loob” remains central to many Filipinos, young and old, the reality of the situation appears to indicate a greater reliance on other means of subsistence.

**Figure 1.11: For the majority of older people, children are not the main source of income**



Source: Cruz et al., *Aging in the Philippines: Findings from the 2007 Philippine Study on Aging*.

**There are also major limits to both the adequacy and regularity of financial support from children.** Far from being a reliable and predictable source of income for older people, financial support from children appears to be more of a last resort when continued work ceases to be an option. In some cases, this may be due to the fact that older people have no children to look to for support. However, as described above (Figure 1.9), most older people live with their children; while many of those who do not are likely to have children living locally, elsewhere in the country, or abroad. In total, 93 per cent of older people have at least one living child.<sup>26</sup> This implies that the proportion of older people who have no family is small, and the greater issue is that children and other family members are either unable or unwilling to provide support.

**The main factor limiting support from children seems to be the wider context of poverty and vulnerability across the country.** As already discussed, most Filipino families are either poor or have low incomes, facing high levels of vulnerability to poverty. It appears that this situation is reflected in the families that older people live with. Data in Figure 1.12 shows that just over half of older people live in households that they perceive facing some or considerable difficulty in meeting expenses. Interestingly, this is similar to the proportion of households in the country defined by

<sup>26</sup> Cruz et al., *Aging in the Philippines: Findings from the 2007 Philippine Study on Aging*.

above as being either low income or poor (see Figure 1.2 above). It is also striking that most of the remaining older people say their households have “just enough to pay expenses”, which suggests many of these are vulnerable.

**Figure 1.12: Most senior citizens live in households with difficulty meeting expenses**

*Self-assessed income adequacy of households where older people live (2007)*



*Source: Cruz et al., Aging in the Philippines: Findings from the 2007 Philippine Study on Aging.*

**The testimony of older Filipinos reveals the difficulty they face in asking for income from children who are facing poverty and insecurity.** These poor, low income and vulnerable families are struggling with a broad variety of competing priorities which include investing in children’s education and in their own livelihoods. This means that there are limits to the extent to which these families can financially support their older parents. This issue emerged prominently in a 2016 study assessing the implementation of the social pension.<sup>27</sup> The two following testimonies from the recipients of the scheme describe this dynamic:

*“Eh puro mahihirap din kagaya ko ‘yung ano..aking mga anak. May taxi driver. ‘Yung mga babae naman nasa bahay lang naman. . . ‘Yung isa lang naman, ‘yun ang merong konti. May trabaho na maganda-ganda. Eh kuwan naman ‘yung mga anak niya..marami naman.”* (My children are also very poor like me. One of my sons is a taxi driver. My daughters, meanwhile, are stuck at home. One of them is relatively more financially capable because he has a good job. However, he has many children.)

**Lolo Marco (83), social pension recipient, Quezon City**

*“S’yempre’yung mga ... naghihirap talaga yung..walang pambiling pagkain, kulang sa pera. Saka wala ka naming malapitan na mga anak na magbibigay talaga ng sapat na suporta. Minsan nga sila rin kinakapos”* (Of course, the poorest are the ones who do not have enough money to buy food, they don’t have enough money. Aside from that, you cannot really ask

<sup>27</sup> Charles Knox-Vydmanov, Daniel Horn, and Aura Sevilla, *The Philippine Social Pension at Four Years: Insights and Recommendations* (Quezon City, 2016).

help from or rely on any of your children. Sometimes they also do not have enough for themselves)

**Lola Rosalina (84), social pension recipient, Quezon City**

**Younger Filipinos also describe the tensions they face around providing financial support to older people.** Focus group discussions undertaken as part of this study highlight some of these dynamics. One woman from Mindanao spoke about the difficult negotiation with her mother:

*“Ana gyod siya nga...ana siya nga ikaw Deborah kanang sa tanan nakong nga anak sa akung gipaminawan ikaw ra gyod akung giganahan... anha nalang ko nimu... na ana pud ko..na wala man koy ipakaon nimu ma kay daghan man kog mga gipaskwela ...ingon siya nimu lang gud ko... di man ko..kuhaon siya sa akung igsuon kay may kaya-kaya pud sila ... dire man gyod siya sa akua ...”*(My mother said, “Of all my children you are the one I favor the most, I want to stay with you.” I said, “I can’t provide for your needs (food) I am supporting many children and provide for their education. I hope my other siblings will provide you custody because they are more capable.” Yet, she is still here with me.)

**Jenny O., Young Female, Mindanao**

Qualitative discussions also shed light on another important dynamic: In the context of family poverty, older people not only continue working to support themselves but also to support their families. As one participant in the discussions put it:

*“Karamihan na rin ngayon mga edad 65 di na ano, meron yung iba retired na pero naghahanap pa rin ng ibang trabaho para may maipakain sa pamilya.”* (Majority of those who are 65 years old and above now are not [enjoying a good life], they still need to find a job to support their family’s need.)

**Daniel S., Young Male, San Fernando**

**The dynamic of older people relying on families for financial support can negatively affect their dignity, autonomy and self-esteem, especially when these families are poor or have low incomes.** Older people are adults who have lived their lives with responsibilities in the workplace and in their families. Having to live the later years of their lives being fully financially dependent on others can be a disempowering experience for those older people that find themselves in this situation. Most are still eager to contribute to their families, and it is for this reason that many continue to work well into their old age, even in spite of significant health issues and other barriers. One recurring theme emerging from discussions with younger Filipinos was the anxiety they faced about potentially becoming a *pabigat* (burden) to their children, and that older people continued working to avoid this issue:

*“Dapat din nagpapahinga na sila, kumakayod pa rin. Kumakayod pa rin dahil. Kulang din yung pantustos sa mga anak nila, para makatulong sa pamilya nila, ayaw nilang maging pabigat.”* (They should be relaxing/have stopped working now, but they are still working. They are still working hard because their children do not earn enough. They work to help their children’s families. They don’t want to become a burden.)

**Jessa Mae S., Young Female, San Fernando**

It seems that anxieties about economic dependence on others can have consequences for mental health. Research in the Philippines has estimated that one in four older people (26 per cent) are

depressed, and levels are with amongst those experiencing some or considerable difficulty meeting household expenses.<sup>28</sup>

**Income insecurity in old age creates barriers to accessing health care.** One of the important consequence of health issues in old age is that older persons commonly have increased health costs just at the stage when their own incomes are falling. Analysis undertaken in 2006 found that 63 per cent of older people's health expenditure was out of pocket, which reflects a general trend across the population of over half of health expenditure being out of pocket.<sup>29</sup> Meanwhile, analysis of the PSOA 2007 found that over a fifth of older people (22 per cent of men and 24 per cent of women) report they have unmet healthcare needs due to financial reasons.<sup>30</sup> The recent extension of PhilHealth to all senior citizens in 2014 has gone some way to alleviate this pressure, however, there are limits to how far the scheme covers medical expenses. Box 3 describes these limitations, as well as the role of discounts on health expenditure. It appears that health expenditure is an area where older people particularly struggle to secure support from children. Older people who live with their families may well be able to secure their food needs by sharing in meals, but requesting to take a share of the – often minimal – cash income for their individual health needs is much more challenging. The following testimony provides an example of the difficulty that one older person had in justifying personal medical expenditure to their cash-strapped daughter:

*“Ang aking ano po ay yung paghahanap-buhay ng aking dalaga, eh ano lang yun, nakikiano lang po siya porsyento. Namomorsyento po siya. Ang halimbawa, siya’y nakabenta ng ano, bibigyan lang po siya ng 150. Yun po ba’y magkakasya? May bigas, may ulam, may gas. Minsan binibili pa ho niya ako ng gamot sa ubo ko kaya ang nagsusuporta ho samin, eh yun kapag mayrong pera yan, binibigyan po ako. Bili ko raw ng gamot. Kaya sabi ko nga dyan sa anak ko, ako’y napapahiya. ‘Eh anong gagawin niyo kung kayo ay may sakit at wala kayong maibili ng gamot?’ Sabing ganun. ‘Wala naman magbibigay sa inyong iba kundi ako na anak niyo tsaka yung mga apo niyo kung may iaabot sa inyo.’ Kaya yun po ang nagiging problema ko”* ([My daughter] is just being given a portion of what she earns from selling [ricecakes], sometimes she is given only PhP 150. Will that be enough? We have to buy rice, viand and gas. Sometimes I also need medicine for my cough. That is why the one who supports me, if she has the money, she will provide me the money to buy some. Sometimes I get humiliated when I talk to my daughter. ‘What can you do if you are sick and you don’t have enough money to purchase your medicine?’ She said. ‘No one really supports you except me and your grandchildren when they have the money.’ This is why I consider this as my problem)

**Lola Almira (78), social pension recipient, Binangonan<sup>31</sup>**

<sup>28</sup> Cruz et al., *Aging in the Philippines: Findings from the 2007 Philippine Study on Aging*, Josefina N. Natividad, “Depression, Social Connectedness and Health in the Older Filipinos,” 2014.

<sup>29</sup> Philippine Statistics Authority, “Private Sources Still the Top Contributor to Total Health Expenditure in 2013,” 2015, [http://www.nscb.gov.ph/pressreleases/2015/PSA-PR-2015-060\\_PNHA.asp](http://www.nscb.gov.ph/pressreleases/2015/PSA-PR-2015-060_PNHA.asp); Rachel H Racelis et al., “The National Health Accounts of the Philippines: Continuing Development and New Findings,” *Philippine Journal of Development Number 33*, no. 61 (2006): 179–210, <http://dirp3.pids.gov.ph/ris/pjd/pidspjd06-healthacct.pdf>.

<sup>30</sup> Cruz and Camhol, “Family and State Roles in Promoting the Well-Being of Older Filipinos.”

<sup>31</sup> Knox-Vydmannov, Horn, and Sevilla, *The Philippine Social Pension at Four Years: Insights and Recommendations*.

It is in this context that many older people simply do not ask for support with medicine, and suffer the consequences.

### Box 3: PhilHealth and discounts on health expenditure.

The Philippine Health Insurance Corp. (PhilHealth), as the national health insurance company, provides the widest coverage of healthcare insurance for senior citizens. Yet much of the benefit is availed of only for actual hospitalization and not much for out-patient services or primary care settings. Besides limited insurance cover for certain types of morbidity, there are also ceilings or prescribed case rates for specific illnesses or medical procedures.

Essential medicines are often unaffordable for older people. In response to this challenge, RA 9257 or the Expanded Senior Citizens Act of 2003 (predecessor of RA 9994) provided for the expansion of coverage of benefits and privileges that the elderly may avail of, including 20% discounts to medically necessary services and products (e.g. medicines, laboratories, professional fees, etc). In 2010, the law was further expanded exempting the seniors from the 12% VAT on the purchase of medicines and health services. Despite these discounts, it is those who are already in a position to afford the medicine who benefit from this privilege. It has no beneficial effect on those who cannot afford to buy medication. Based on the Impact Evaluation of RA 9994 on Drug Accessibility, 42 per cent of drugstore personnel interviewed said that senior citizens are still not able to buy their medicines completely because of lower incomes (or limited financial ability) and higher costs of medicines. Further, of all the senior citizens surveyed, less than 50 per cent indicated that they were able to buy all their medications. Adherence to regimen as a result of the provisions of the law was at a low 54 per cent. This was observed among respondents who have schooling beyond elementary education. Another problem identified in implementation of the law was that in some in drugstores, especially the small ones, since they cannot afford to provide the full discount, many devise certain schemes to get around the law. One of these is jacking up the price in such way to cover up for the possible loss of income or telling seniors they have no stocks available and refer them to big chain drugstores. This has significant implications on the enjoyment of the right to health of the most disadvantaged older people who cannot afford the essential medication that they need.

*Source:* Jesus N J.N. Sarol, Roderick L Salenga, and Monet M Loquias, *Impact Evaluation of the Expanded Senior Citizens Act of 2010 (RA 9994) on Drug Accessibility among the Elderly*, vol. 2010, 2015, <http://hsrm.doh.gov.ph/researches/view/26>.

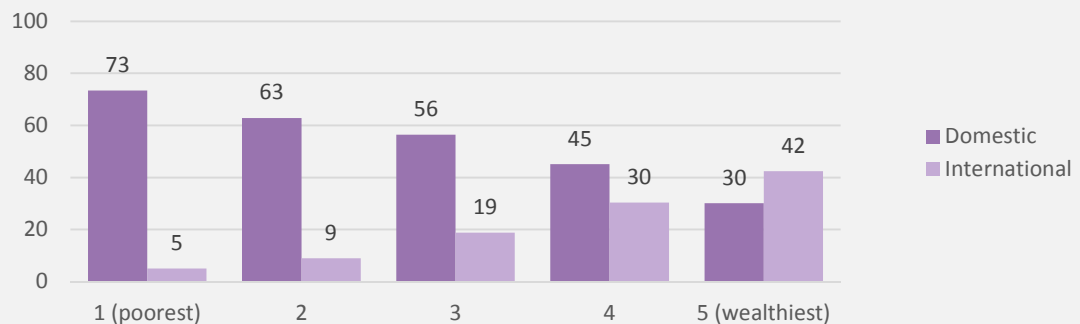
**While labor migration has potential to support older people, only a minority receive remittances.** The Philippines is one of the top international remittance receiving countries in the world, with an estimated \$30 billion flowing into the country in 2013.<sup>32</sup> It is often hypothesized that for older people who receive incomes from adult children who are living and working abroad, this support can provide an alternative to social protection. The proportion of older people who receive this support is, however, modest. According to PSOA 2007 data, only one quarter (26 per cent) of

<sup>32</sup> World Bank, *Migration and Remittances Factbook 2016: Third Edition* (Washington, DC, 2016).

older people have a child living abroad. Of these, 83 per cent reported receiving some form of support over the last year; nevertheless, only a minority (22 per cent of men and 34 per cent of women) said their migrant children were their main source of income. Economic activity, pensions and support from children are more likely to be a main source of income.<sup>33</sup> These numbers underpin the picture presented in Figure 1.10 and Figure 1.11 which show 21 per cent of all older people combined receive income from children abroad, and just 8 per cent report this as their main source of income.

**International remittances mainly benefit older people who are relatively better off.** Figure 1.13 presents analysis of the APIS 2013, looking at the share of households with an older person receiving remittances according to wealth quintiles. Notably, while 42 per cent of households in quintile 5 (the wealthiest 5<sup>th</sup> of the population) receive international remittances, this is the case for just 5 per cent of households in the poorest 20 per cent. This reflects findings from the PSOA 2007 survey which finds that older people receiving income from remittances have higher levels of education than average. Similar findings emerge from research which looked at the distribution of remittances across the population as a whole, using the FIES surveys in the years 2000, 2003 and 2006. The study found the likelihood of households receiving remittances was consistently higher for better-off households. The same research also assessed the levels of remittances received and found them to be consistently higher in richer households.<sup>34</sup> Another notable trend from Figure 1.13 is that domestic remittances are, in contrast, far more likely to benefit poorer households.

**Figure 1.13: Share of households with older people receiving remittances by wealth quintile**



Source: APIS 2013 (Authors' calculations)

<sup>33</sup> Cruz and Camhol, "Family and State Roles in Promoting the Well-Being of Older Filipinos."

<sup>34</sup> Alvin P. Ang, Guntur Sugiyarto, and Shikha Jha, *Remittances and Household Behavior in the Philippines*, ADB Economics Working Paper Series (Mandaluyong City, 2009).

## 2

## THE STATE OF THE PENSION SYSTEM

**P**ensions play a unique role in supporting individuals to live their later years with autonomy and dignity. While older people can receive income from a diverse combination of sources, pension income has distinct features. First and foremost, when implemented correctly, pensions provide a source of income that is both regular and predictable. Knowing that income will be received in the future helps individuals to plan and also provides greater security which can reduce stress and anxiety. This greater security not only applies to older people, but to younger generations who can look to their old age with the knowledge they will have a regular income. Secondly, when older people receive a pension they have a say in how they spend their income. This allows much greater agency, autonomy and dignity than when they have to depend on others for their needs.

**This report is focuses on how to ensure that every Filipino receives an adequate income in old age.** Achieving this will inevitably require a combination of contributory and non-contributory pensions. To understand the respective role of these two kinds of pensions, it is helpful to recognise that public pension systems tend to perform two distinct, but complementary, functions. The first – often called consumption smoothing – is to provide a mechanism by which workers put aside money when they are younger workers, in order that they can maintain their level of consumption in old age, when they are less able to work. This function is primarily a way for individuals to ensure they can maintain the standard of living they have become used to when they reach old age. It can be achieved through different kinds of contributory pensions. The second function – often called redistribution – is to provide a mechanism to share the risks associated with old age amongst the wider society. This can be achieved either through contributory systems, by redistributing between better and worse off contributors or providing tax-financed subsidies, as well as through dedicated tax-financed cash transfers, such as a social pension.

**This section reviews the extent to which the existing pension system in the Philippines delivers in terms of coverage and adequacy.** It begins by assessing the nature of the contributory system, and the scope for expanding its coverage and adequacy, and then moves to assess the progress in expanding social pensions to date.

### 2.1 LIMITATIONS OF THE CONTRIBUTORY SYSTEM

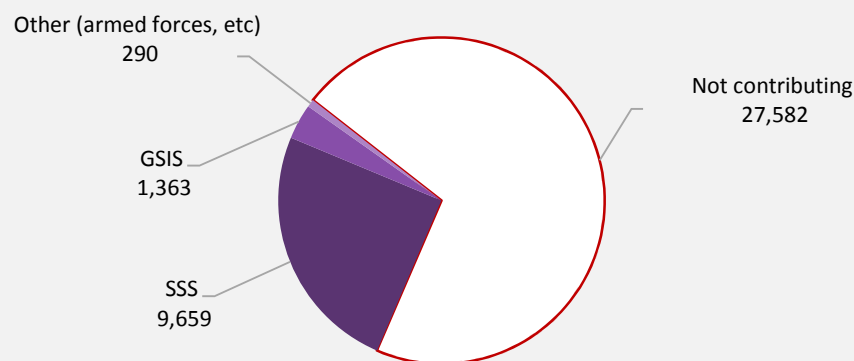
**The Philippines has a long history of contributory public pensions which have been relatively effective at expanding coverage compared to other countries in the region.** The Government Service Insurance System (GSIS), covering public sector employees, was created in 1936 making it not only the first social insurance scheme in the country, but the oldest in the region. This was

followed two decades later, in 1954, by the creation of the Social Security System (SSS) designed to cover private-sector employees, own-account workers and other groups.<sup>35</sup> Recent analysis by the World Bank has found that the introduction of these schemes was relatively early compared to the extent of population ageing in the country. In the meantime, the Philippines has managed to achieve higher coverage of the working population than other countries of a similar level of economic development, such as Indonesia.<sup>36</sup>

**Coverage of contributory pension schemes, nevertheless, remains low, with over 70 per cent of the economically active population not contributing to a pension.** Of nearly 39 million economically active<sup>37</sup> Filipinos in 2010, just 28 per cent were reported to have made contributions to either GSIS or SSS pensions in the previous year, meaning over 70 per cent were making no contribution at all (Figure 2.1). The vast majority of contributors (approximately 9 in 10) were affiliated to SSS, rather than GSIS. In addition to these two major schemes, 290,000 people were estimated to be insured by armed forces and other separate pension schemes. These levels of coverage – of between 25 and 30 per cent contributing – remained fairly consistent between 2000 and 2010 and it is unlikely that there have been any major changes over the last 6 years.<sup>38</sup>

**Figure 2.1: 1 in 4 working Filipinos are actively contributing to a pension**

*Economically active population contributing to a pension (thousands) (2010)*



Source: Carmelo Mesa-Lago, Verna Dina Q. Viajar, and Rolly Czar Joseph Castillo, *Pensions in the Philippines: Challenges and Ways Forward* (Manila: Friedrich Ebert Stiftung, 2011), [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2045654](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2045654)

**It is also possible that these figures overestimate the coverage of contributory pensions.** First, having contributed to an SSS or GSIS pension in the previous year does not necessarily mean an individual will, by the time they retire, have made sufficient contributions to be entitled to a regular pension in old age. Second, it is important to highlight that the definition of the “economically active population” does not include those who are not seeking work. As illustrated in Figure 1.6 in

<sup>35</sup> Mesa-Lago, Viajar, and Castillo, *Pensions in the Philippines: Challenges and Ways Forward*.

<sup>36</sup> World Bank, *Live Long and Prosper: Ageing in East Asia and Pacific*.

<sup>37</sup> The economically active population constitutes individuals in the labour force, that is, those who are employed or actively seeking employment (unemployed).

<sup>38</sup> Mesa-Lago, Viajar, and Castillo, *Pensions in the Philippines: Challenges and Ways Forward*.

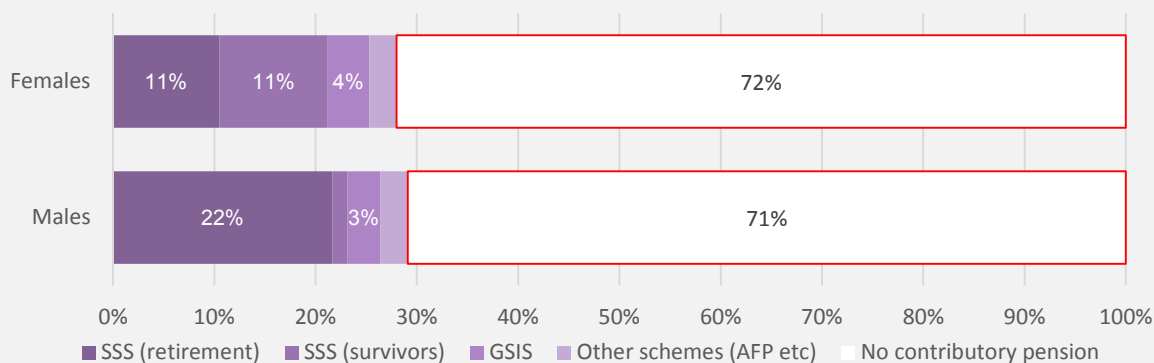


the previous section, only around half of women aged 15-59 are economically active, meaning that coverage will be substantially lower relative to the total working age population than these figures suggest.

**The result of the low proportion of workers contributing is that fewer than a third of senior citizens receive a contributory pension.** Figure 2.2 illustrates the situation by presenting the proportion of males and females over the age of 60 who receive different kinds of contributory pension. For both sexes, over 70 per cent receive no contributory pension at all, with 29 per cent of men and 28 per cent of women in receipt. By far the most common kind of pension is from the SSS, although the kind of pension received differs by sex. For males, 22 per cent receive a retirement pension with just 1 per cent receiving survivors; while for females, coverage is split equally between retirement and survivors pensions. This means that only half of female SSS pensioners receive the pension due to an entitlement they have built up themselves, rather than that of their partner.

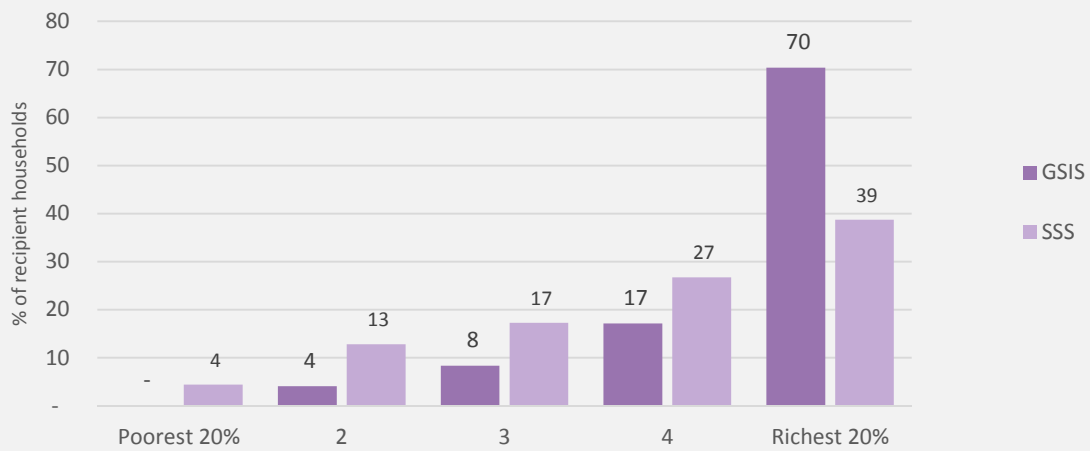
**Figure 2.2: Less than 30 per cent of senior citizens receive a contributory pension**

*Share of population 60+ by receipt of contributory pensions (multiple years)*



Source: Authors' calculations based on administrative data shared by SSS (September 2015) and GSIS (December 2015). Gender disaggregation of survivor benefits had to be estimated due to limitations of existing data. GSIS data includes old age and disability pensioners. The share of older people covered by other schemes is based on figures from Mesa-Lago, Viajar, and Castillo, *Pensions in the Philippines: Challenges and Ways Forward*.

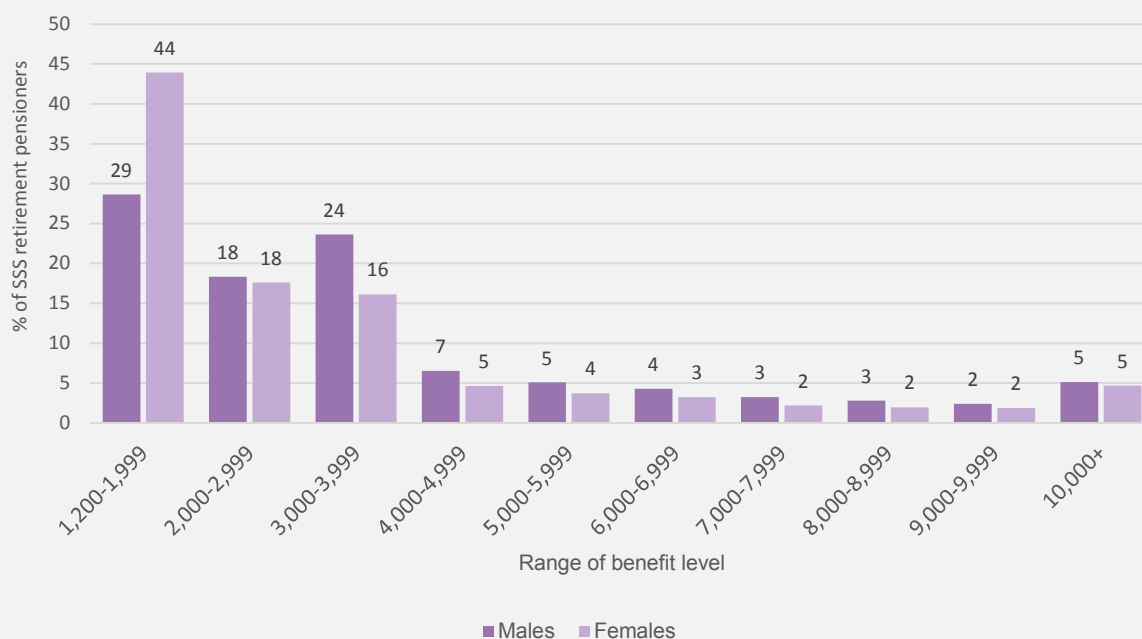
**Older people receiving contributory pensions also tend to be relatively better off.** Figure 2.3 shows where older people receiving SSS and GSIS pensions sit in the income distribution of the country, which is divided into five quintiles (each denoting one fifth of the population) ordered from poorest to richest. Strikingly, 70 per cent of GSIS recipients are found in the wealthiest fifth of the population, with just 4 per cent in the poorest two fifths. SSS recipients are more evenly distributed, yet 39 per cent are still found in the wealthiest quintile, and 65 per cent in the top two quintiles. Analysis of the APIS also shows that recipients of contributory pensions are more than twice as likely to live in urban areas, than in rural areas.

**Figure 2.3: Most beneficiaries of SSS and GSIS are relatively better off***Income distribution of recipients of contributory pensions (GSIS and SSS)**Source:* APIS 2013 (Authors' calculations)

**Receipt of a contributory pension does not – however – guarantee income security.** While the average benefit level for SSS pensioners is around PhP 3,600 per month, most pensioners receive well below this. One fifth (20 per cent) of retirement pensioners receive between PhP 1,200 (the lowest benefit) and PhP 1,499. Given that the most recent poverty line (from the APIS 2013) was PhP 1,600, this means that a significant share of SSS pensioners are receiving benefits below the poverty line. One of the drivers of the low levels of benefits is that they are not systematically adjusted for inflation. Between 2000 and 2010, for example, the real value of SSS pensions declined by a quarter (24 per cent).<sup>39</sup> This compares to increases of 3 per cent in GSIS and 38 per cent in the Armed Forces of the Philippines Retirement and Separation Benefits System.

**SSS pension benefits are particularly low for women.** Figure 2.5 presents data on benefit levels in further detail and disaggregated by sex. Overall, 44 per cent of females and 29 per cent of males receiving retirement pensions get benefits below PhP 2,000, with the vast majority receiving less than PhP 4,000 – 71 per cent of males, and 79 per cent of females. Survivors benefits – which are mainly received by women – are also low. The minimum benefit for survivors is just PhP 1,000 and (while the level of analysis undertaken in Figure 2.4 is not possible) the average benefit of 2,880 is PhP 700 lower than the average for retirement benefits.

<sup>39</sup> Mesa-Lago, Viajar, and Castillo, *Pensions in the Philippines: Challenges and Ways Forward*.

**Figure 2.4: Most SSS retirement pensioners receive low or modest pensions***Share of SSS retirement pensioners by benefit level and sex*

Source: Authors' calculations based on SSS administrative data (September 2015).

**Low adequacy of SSS pensions has led to proposals for a PhP 2,000 top up, but this could create major challenges to sustainability and equity of the pension system.** In 2015, House Bill 5842 which proposed a PhP 2,000 monthly top up to all SSS pensioners, was passed in both the House and the Senate. In January 2016, the proposal was vetoed by then President Aquino. While there is no doubt about the inadequate benefits of many SSS pensioners, questions remain about how such a proposal could be financed. Options include funding from SSS funds, or from general taxation. Neither situation is without its drawbacks. Financing a top up from SSS funds would likely entail an increase in contributions, which would increase the cost to workers, and potentially hamper efforts to expand the scheme to more self-employed workers. Funding from general taxation would have its benefits, but this does raise questions in terms of equity. Given that the majority of SSS pensioners are found at the higher end of the income distribution, this could risk becoming a cash transfer to the relatively better off. If financed from taxes there would be a strong case for considering how the scheme would link with the social pension, which is also a tax-financed scheme with a similar purpose.

## 2.2 CHALLENGES TO INCREASING CONTRIBUTORY COVERAGE

**The high levels of informal employment in the Philippines create major challenges for extending the coverage of contributory pensions.** While there is no simple method to measure the scale of informal employment, the large majority of workers in the Philippines are in informal work. Serrano et al, for example, find that 70 per cent of those employed were either in the informal sector (39 per cent) or were non-regular workers (31 per cent).<sup>40</sup> The World Bank, using a slightly different definition, estimate a slightly higher figure of 75 per cent of Filipino workers informally employed.<sup>41</sup> Informality creates major challenges for contributory pension systems. Informal workers tend to have irregular and unpredictable incomes which limit the extent to which they can regularly contribute to a pension. The lack of a formal employer means they are not automatically enrolled into schemes, while also meaning they cannot count on an employer's co-contribution to a pension. The result is that, in the case of the SSS, the full 11 per cent contribution must be taken on by the individual.

**Informality is compounded by high levels of poverty and insecurity.** Many of those working in informal employment also receive very low wages and live close to or below the poverty line, which is illustrated by the discussion in Section 1 above. In reality, most Filipino workers earn low, irregular and unpredictable incomes within the informal sector, which have to be divided between a number of family needs. These include basic costs such as food, bills and transport, as well as costs for children (such as education) and care for more vulnerable family members (such as older people and people with disabilities). A particularly important factor, which echoes discussion earlier in the report, is that many younger workers see investment in children as their best bet in terms of preparing for old age. Even in families where incomes are sufficient to meet all these needs, there may well not be enough left over for a meaningful pension contribution. Indeed, pension contributions will commonly not be the biggest priority for families struggling to make ends meet. This issue emerged in qualitative discussions with younger people as part of this study. The two testimonies below highlight how – despite a clear intention to save for old age, for many people other priorities come first:

*“Maglisud jud, kay imong income igo ra man pagkaon, pang biste pa, pangskwela pa, bastag manunghaay ra ka.”* (Indeed we are struggling, because our income is just enough for our food, for our clothing, also for education and you don't have permanent job.)

**Angeline P., Middle Age Female, Mindanao**

*“Sa akua nga side sa pangidaron naku karon gusto gyud unta ko mangandam about ana nya sa kita ba maadto man gud sa eskwelahan bayad sa eskwelahan mao na nga dili lang pud, sa kakulangaon gyud ba sa income...”* (At my age I want to have my preparation (old age), however, my income goes to school, payment to school fees. It is not possible because my income is not enough.)

**Jasmine O., Young Female, Mindanao**

<sup>40</sup> Melisa Serrano et al., *The Informal Economy in the Philippines: Perspectives, Challenges and Strategies on Transitions to Formality* (Quezon City, 2015).

<sup>41</sup> Karl Kendrick Chua et al., *Philippines Development Report: Creating More and Better Jobs* (Washington, DC, 2013).

**A number of initiatives have been taken to increase coverage of informal sector workers, with some modest success.** Some measures have focused on making it easier for those in informal employment to make contributions. For example, a system of Automatic Debit Arrangements have been put in place to help these workers to make contributions through accredited banks via automatic account deductions or over the counter transactions. Participation in these arrangements has, however, been low.<sup>42</sup> Another important initiative has been the AlkanSSSy program which aims to provide a “piggy bank” system for low income informal sector workers with irregular incomes. As described in Box 4, the program has been a useful mechanism for many of those workers enrolled, yet its potential to significantly increase coverage is limited by a number of factors.

#### Box 4: The AlkanSSSy program

The AlkanSSSy program was initiated in 2012 as a way to broaden coverage of the SSS to low income informal workers with irregular incomes. The scheme is run in partnership with Informal Sector Groups that represent different sectors such as personal transport drivers (particularly tricycle drivers), garbage pickers, fisher folk and jail inmates. *AlkanSSSy* units are placed at convenient locations for workers which include up to 160 mini or personal safety boxes where contributions can be deposited. The program allows savings as little as PhP 12 per day or PhP 330 per month. Members are entitled to a variety of benefits depending on how regularly they make contributions. To receive a retirement pension, a member must make the minimum contribution for at least 120 months.

Between 2011 and the end of 2014, 122,387 members had been enrolled in the scheme, with 63,758 enrolled in 2014 alone. This marks positive progress, yet still represents a small expansion of coverage with the 122,387 total members since 2011 representing just 0.3 per cent of the labor force, and 0.8 per cent of workers in the informal sector. It also appears that many workers are not making regular contributions. For the PhP 167 million collected between 2011 and the end of 2014, this represents just 4 months of contributions per member. A total of 120 months is needed to gain eligibility for a retirement pension. This suggests that while the scheme has provided a valuable opportunity to some, for many the task of making sufficient contributions remains too great.

It is also important to note that there is an inherent limit to how far the scheme could extend before it would negatively impact the sustainability of the SSS fund. It is recognised that AlkanSSSy members are among the group of those “subsidized” by the SSS fund; in other words, they will likely take out more than they contribute. Put in simple terms, the 120 months of minimum contribution (PhP 330) needed to gain entitlement for a retirement pension is equal to

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<sup>42</sup> Dorfman, Bogomolova, and Razat, *Republic of the Philippines Review of the Social Security System: Considerations for Strengthening Sustainability and Coverage*.

a total contribution of PhP 39,600. Yet this would fund less than 3 years payment of the minimum pension level (PhP 1,200 per month), while life expectancy at 60 is currently 17 years. More sophisticated actuarial analysis would add more nuance to these simplistic calculations, yet it is clear that AlkanSSSy beneficiaries are significantly subsidized by other SSS members who make higher contributions. While the numbers of members remain modest this will have little effect on the actuarial situation of the SSS, yet this would change were the scheme to expand dramatically.

*Sources:* Mark Charles Dorfman, Tatyana Bogomolova, and Maya Razat, *Republic of the Philippines Review of the Social Security System: Considerations for Strengthening Sustainability and Coverage* (Washington DC, 2016), <http://documents.worldbank.org/curated/en/328641466736355290/Philippines-Review-of-the-social-security-system-considerations-for-strengthening-sustainability-and-coverage>; Verena Damerau, *Enabling Informal Workers to Access Social Security: Evidence from the AlkanSSSy Programme in the Philippines*, Discussion Papers on Social Protection (Eschborn, 2015); Social Security System, *SSS Annual Report 2014* (Quezon City, 2015).

**One specific suggestion for increasing coverage has been that government should match contributions made by informal sector workers.** The theory is that by subsidizing contributions, more informal sector workers would be able to afford the regular contributions. One proposal has been that poor informal sector workers could pay 50 per cent of their contribution, with the government paying the other 50 per cent.<sup>43</sup>

**This approach has, however, been questioned in terms of its likely effectiveness, and its cost.** Recent analysis by the World Bank concluded that “this would not be the most effective instrument for coverage expansion in the Philippines”, identifying two fundamental issues. The first is that poor and vulnerable workers are unlikely to be able to afford the contribution, with preliminary findings suggesting it would be unaffordable for the poorest 40 per cent of workers. Second, the approach could be expensive, costing as much as 0.6 per cent of GDP per year. Notably (and as discussed further in Section 5) this would be similar to the scale of cost of a universal social pension. A universal pension would also benefit all older people, and all Filipinos in future, where a matching subsidy would mainly benefit a small portion of relatively better-off informal sector workers. It is for this reason that the World Bank analysis finds that broadening the target population of the social pension “would prove more effective in increasing coverage of the elderly when compared to matching grants”. It is worth noting that while the case for matching contributions may be weak for old age income security, there may be a case for using this approach for other life risks (such as maternity and accident) which has been proposed by some.

**In sum, while continued efforts should be made to increase contributory coverage, it is likely that progress will be modest in the medium to long term.** Progress in expanding contributory coverage has been slow in recent decades, and there is little reason to believe this will accelerate dramatically. As noted recently by the World Bank, few countries at a similar level of economic

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<sup>43</sup> Ibarra A. Malonzo, “Quick Fix or Sudden Collapse,” *Inquirer.net*, September 6, 2015, <http://opinion.inquirer.net/88264/quick-fix-or-sudden-collapse>.

development to the Philippines have been able to achieve significantly higher levels of contributory pension coverage.<sup>44</sup> This is due to the fact that many of the underlying barriers to increasing coverage – such as poverty and informality – are only likely to be addressed gradually as the economy grows in an inclusive fashion. Indeed, Serrano et al highlight the increasing recognition that informality is not a short-term phenomenon, but rather a feature of the current approach to economic development in the Philippines.<sup>45</sup> If this is the case, it creates major challenges for social security schemes such as the SSS, which were conceived on the basis that there would be a steady rise in formal employment that would allow the expansion of such schemes. It is for this reason that many countries across the Asia region and the world are looking to tax-financed social pensions as a rapid way to complement contributory pensions by providing a minimum floor for the pension system.

### 2.3 THE SOCIAL PENSION FOR INDIGENT SENIOR CITIZENS

**The social pension is a relatively recent addition to the Philippine pension system, but has rapidly expanded since its introduction in 2011.** The scheme was introduced as part of the Expanded Senior Citizens Act (RA9994) of 2010, with the aim of supporting senior citizens to augment their daily subsistence and medical needs.<sup>46</sup> Recipients receive a monthly pension of PhP 500 – which is paid as PhP 1,500 every quarter. The first payment for the scheme was made in 2011, and until 2014 older people aged 77 and over were prioritized. In 2015 the age of prioritization was reduced to 65, and in 2016 the age was reduced to 60, meaning the scheme now complies with the eligibility set out in the law.

**By 2017 the scheme should cover one third of senior citizens.** As shown in Figure 2.4, from a coverage of 139,000 in 2011, the scheme is now budgeted to cover nearly 1.4 million older people in 2016. The 2017 budget provides sufficient funding to cover 2.8 million older people, which would be equivalent to 33 per cent of the projected population of older people in that year (8.4 million).

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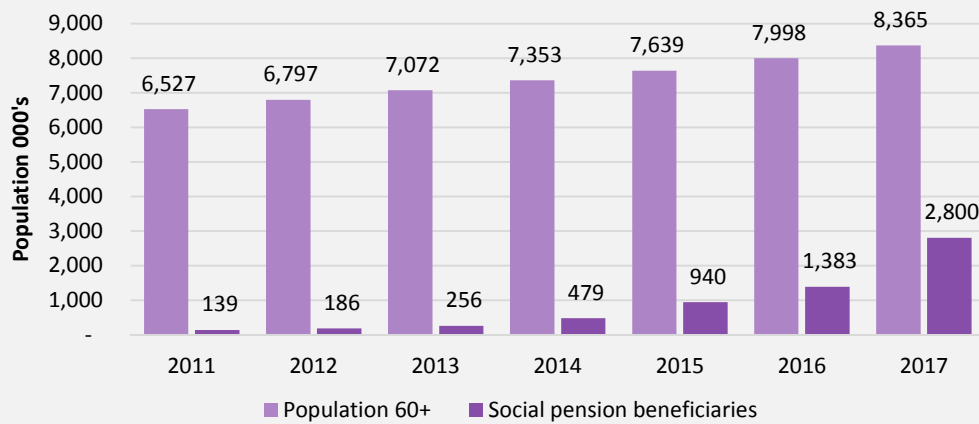
<sup>44</sup> World Bank, *Live Long and Prosper: Ageing in East Asia and Pacific*.

<sup>45</sup> Serrano et al., *The Informal Economy in the Philippines: Perspectives, Challenges and Strategies on Transitions to Formality*.

<sup>46</sup> An indigent senior citizen is any citizen aged 60 and over who is “frail, sickly or with disability, and without pension or permanent source of income, compensation or financial assistance from his/her relatives to support his/her basic needs”.

**Figure 2.5: The coverage of the social pension has expanded significantly since 2011**

*Projected population aged 60 and over and number of social pension recipients*



Source: Department of Budget and Management, *People's Budget 2016* (Manila, 2016); Philippine Statistics Authority, "2010 Census-Based Population Projections in Collaboration with the Inter-Agency Working Group on Population Projections"; Republic of the Philippines, *General Appropriations Act 2017*, 2017.

**The social pension has an important positive impact on the lives of older people who receive it.** A recent study in partnership between COSE, HelpAge and the Demographic Research and Development Foundation (DRDF) found that the scheme was having a meaningful impact on recipients, and – on average – constituted a third of household income. Recipients described how – despite the modest benefit level – the pension had made a significant difference to their lives, and particularly supported food expenditure. It was also notable that the impacts of the scheme went beyond older people specifically, to support the needs of other family members including grandchildren.<sup>47</sup>

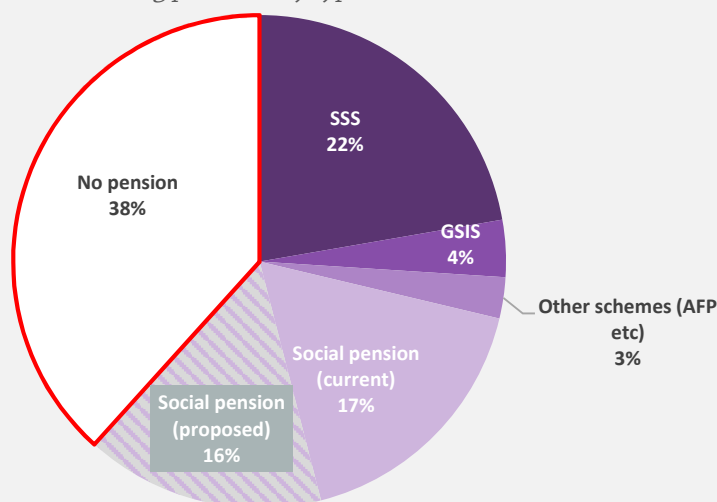
**However, under its current design the scheme still leaves a large share of older people with no pension at all.** Figure 2.6 shows the proportion of older people over 60 years receiving different kinds of pensions. As discussed above, slightly under 30 per cent of older people receive some kind of contributory pension. In this context, the social pension has made an important dent on reducing the coverage gap, with an additional 17 per cent budgeted to be covered in 2016. If the proposed expansion of the scheme under the 2017 budget is followed, this would nearly double the coverage, with an additional 16 per cent of older people in receipt. Nevertheless, this would still leave 38 per cent of older people with no pension at all.

<sup>47</sup> Knox-Vydmanov, Horn, and Sevilla, *The Philippine Social Pension at Four Years: Insights and Recommendations*.



**Figure 2.6: Even with an expanded social pension nearly 40 per cent of seniors will be uncovered**

*Share of older people (60+) receiving pensions, by type*



*Sources:* Administrative data from SSS (September 2015) and GSIS (December 2015). Social pensions data from 2016 budget in Department of Budget and Management, *Technical Notes on the 2016 Proposed National Budget* (Manila, 2015). Other schemes are calculated based on analysis in Mesa-Lago, Viajar, and Castillo, *Pensions in the Philippines: Challenges and Ways Forward*. The share of older people covered is calculated using age disaggregated population projections from Philippine Statistics Authority, “2010 Census-Based Population Projections in Collaboration with the Inter-Agency Working Group on Population Projections.”

**The 38 per cent coverage gap represent a major “missing middle” in the pension system.** Under its current design, the Philippine pension system caters to higher income formal sector workers through contributory schemes, and the poorest older people through the social pension. However, it leaves out a significant share of the population in the middle. In simple terms, these can be characterized as individuals who have spent much of their lives in the informal sector, possibly living above the poverty line, but with inadequate and/or irregular income to save sufficient resources for old age, or contribute to a formal scheme. In old age, they likely have family who can provide some level of support, yet these families are part of the vast swath of Filipinos who themselves are struggling to make ends meet, let alone sufficiently support their elders.

**Issues in the targeting of the social pension also suggest many of the poorest older people are not reached.** The recent review conducted by COSE, HelpAge and DRDF found that the targeting process encounters significant challenges. Similar accounts emerged from qualitative discussions with younger Filipinos as part of this research (Box 5). A common observation by both implementers and older people was that many older people recipients appear not to be the poorest, while many of the poorest miss out. One major issue identified is that the *Listahanan* database – which is based on household data - does not adequately measure issues related to the vulnerability of individual older people. For example, the data underpinning the *Listahanan* database does not specifically measure key elements of the definition of “indigent” senior citizens set out in RA9994 (i.e. family support, disability, receipt of other social security benefits). As a result LGUs have reported major errors in the list, with some reportedly removing as many as half from the original

list. Others reported how older people who were clearly poor were identified as non-poor by the *Listahanan*.<sup>48</sup> As a result, being identified as poor in the *Listahanan* database is no longer a precondition for eligibility for the social pension, but rather used as a reference point. This has led to a greater role for LGUs in identifying and validating senior citizens for the scheme.

#### Box 5: Targeting of the social pension: perspectives of younger Filipinos

As part of the qualitative element of this study, younger Filipinos were asked about their perspectives on the existing social pension scheme. A common theme of discussion was the perspective that the program was poorly targeted. The following testimonies give a sample of some of the issues raised:

“There are a lot of people who were asking how the recipients were chosen and how they were included on the barangay’s list of beneficiaries (for social pension). There are some who suspect irregularities in the process of selection. I think it is also unfair because there are some who have social pension that are well-to-do (compared to others who were not selected).”

**John Lloyd C., Middle Age Male, Compostela**

“*May nagbigay dun sa barangay namin eh mga ganun..social pension, yung mga malapit lang sa barangay nakakuha, kapag di ka nakakalabas dun wala.* (Somebody provided it in our barangay [village], social pension however only those who are friends of the barangay received it. Those who are not capable to leave their home received nothing.) **Justin S., Young Male, San Fernando**

“*Yung mga hindi nakakaalam wala.*” (Those who knew nothing about it [social pension] they do not receive anything.) **Michelle S., Young Female, San Fernando**

**The increasing role of LGUs in the targeting process is unlikely to resolve issues of accuracy, and may create additional challenges.** In principle, the fact that LGUs are in closer proximity to older people means they should be better able to understand their situation and identify who is indigent or not, in relation to the definition set out within RA9994. However, identification and validation of indigency at the local level creates additional issues. One is that the highly subjective nature of decision making can leave space for clientelism and corruption in the targeting process. Both the recent review of the social pension, and qualitative evidence from this study (Box 5), uncovered a common perception of officials within the barangay influencing decisions and engaging in favoritism. Another issue is that LGUs struggle to mobilize the necessary human resources to undertake the time intensive process, which can lead to older people being enrolled without adequate validation. This issue can also lead LGUs to avoid publicizing the program in order to avoid further applications - not to mention a greater workload for LGU staff. Both this study and the review of the social pension found many older people were simply unaware of the scheme’s

<sup>48</sup> Knox-Vydmanov, Horn, and Sevilla, *The Philippine Social Pension at Four Years: Insights and Recommendations*.

existence. This suggests that many poor older people are not being reached simply due to lack of information.

**While there are ways in which the targeting process can be strengthened, international experience suggests targeting errors are inherent to poverty-targeted programs.** The fundamental challenge faced by poverty-targeted schemes relates to the nature of the income distribution in most low and middle income countries, (discussed in Section 1 in relation to the Philippines). Rather than there being a clear and distinct group within the population that can be easily identified as poor, the reality is that the bottom 70-80 per cent of the population have relatively similar income levels, which are changing over time, with different families moving in and out of poverty. Identifying the very poorest within this group at any moment in time is extremely difficult. A relatively fit older person receiving remittances one month, may end up a few months later facing health issues and unable to count on their adult children's support. Targeting the poorest 17 per cent of older people (as in the case of the social pension) therefore demands a highly dynamic targeting system that can sense the minute changes in individual and family circumstances over time. Unfortunately, no system of this nature exists anywhere in the world, which explains why poverty targeted schemes tend to have such high inclusion and exclusion errors. For example, a cross-country analysis of the proxy means tested approach (which underpins the Listahanan) in four countries found that – when targeting the poorest 20 per cent – between 44 and 55 per cent of target recipients would be excluded.<sup>49</sup> These errors can be reduced when targeting larger portions of the population, but are smallest when using easily-identifiable indicators to target, such as receipt of other pensions, or ownership of large assets (e.g. housing).

**Beyond the issue of targeting, there is consensus that the PhP 500 benefit level for the social pension is far from adequate.** The amount is equal to less than half (41 percent) of the 2014 food poverty line (PhP 1,225 per month) and just 28 percent of the national poverty line (PhP 1,756). In this context, the four-year review of the social pension found that it was more likely to provide a supplement to other forms of income – such as work or support from children – rather than the main source of income for older people. In particular, while social pension income went some way to meeting food needs, it was generally seen as far too low to make a major contribution to covering health expenses. The study also found that the value of the benefit level was eroded by relatively high costs of transport to pay points, although some regions have now responded to this by introducing door-to-door payments.<sup>50</sup> In international comparison, the current social pension benefit level ranks amongst the lowest in the world (Figure 2.7). The 500 PhP payment constitutes just 4 per cent of GDP per capita (a measure of average income). This is a fraction of the benefits paid in South Africa, Georgia, Nepal and Brazil (between 23 and 31 per cent of average income). Particularly striking is that Nepal – a low income country with a GDP per capita just a third of the

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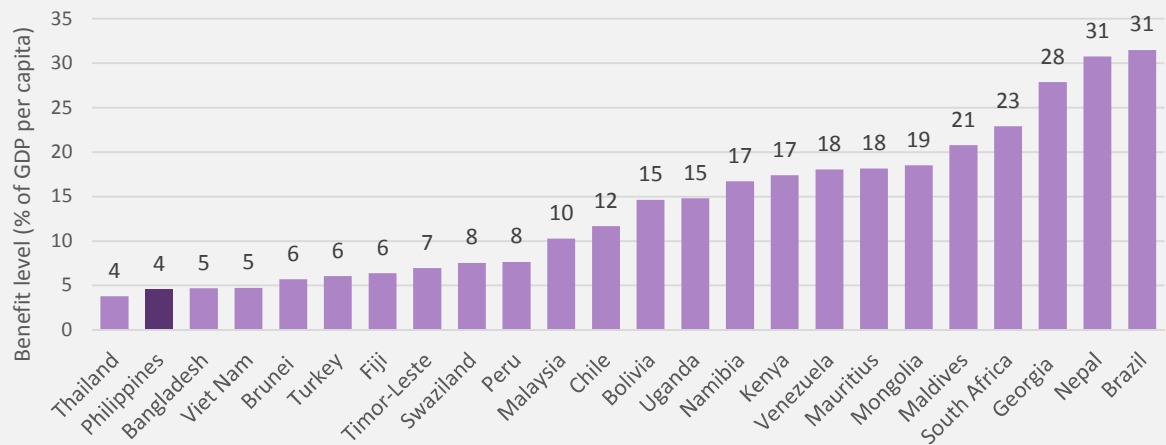
<sup>49</sup> Stephen Kidd and Emily Wylde, *Targeting the Poorest: An Assessment of the Proxy Means Test Methodology* (Canberra, 2011), <http://www.unicef.org/socialpolicy/files/targeting-poorest.pdf>.

<sup>50</sup> Knox-Vydmanov, Horn, and Sevilla, *The Philippine Social Pension at Four Years: Insights and Recommendations*, Grace Casin, "Door to Door Delivery Ng DSWD Pension Sa Mga Senior Citizen Ipatutupad Na Sa Buong Bansa Ngayon Taon," *UNTV News*, February 23, 2016.

Philippines – is able to afford a higher benefit level. The benefit level in Nepal is also higher than the Philippines in absolute terms, at US\$ 19 (2,000 Nepali rupees), compared to US\$ 10 for the PhP 500 benefit. The Philippine benefit level is also significantly lower than the benefit paid by low income countries including Kenya and Swaziland.

**Figure 2.7: The benefit is low compared to other countries with social pensions**

*Benefit levels of selected social pensions as a share of GDP per capita*

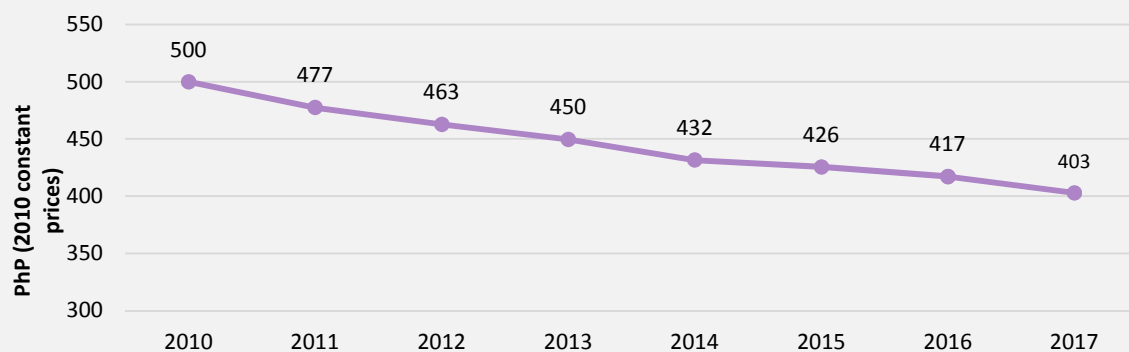


*Source:* HelpAge International, *Social Pensions Database*, 2016, <http://www.pension-watch.net/about-social-pensions/about-social-pensions/social-pensions-database/>.

**The lack of indexation of the benefit to inflation has further eroded its adequacy.** Since the identification of the PhP 500 benefit level in RA9994 in 2010, there has been no change in the benefit level of the social pension. As prices have risen in the country (i.e. inflation), the real value and purchasing power of the pension has decreased significantly. As illustrated in Figure 2.8, the benefit level in 2016 is worth just PhP 417 in the prices of 2010, which signifies a 17 per cent fall in the real value. If the benefit level is unchanged in 2017, the real value will reduce to PhP 403 in 2010 prices, a fall of 22 per cent in real terms.

**Figure 2.8: The social pension today is worth PhP 403 in the prices of 2010**

*Real value of the social pension relative to 2010 constant prices*



*Source:* Authors' calculations using International Monetary Fund, *World Economic Outlook Database*, April 2016, 2016.

## 3

# THE RATIONALE FOR A UNIVERSAL PENSION

**U**niversal social pensions have emerged as an increasingly popular way to address the kinds of challenges being faced in the Philippines. A universal social pension is a tax-financed scheme that provides a minimum pension entitlement to all older people over a given age of eligibility. In some respects, adopting this approach would represent a simple extension of the existing social pension, but in other ways it would represent a more fundamental rethinking of the function of the social pension within the pension and social protection systems. This section explores the rationale for introducing a scheme of this nature in the Philippines, first outlining the role and advantages of a universal pension, and then setting out the potential impact that could be anticipated.

## 3.1 WHAT IS ITS ROLE?

### 3.1.1 Universal coverage and lower administrative burden

**The core benefit of a universal social pension is that it would ensure that all seniors today and in the future would receive a pension.** The fundamental principle of a universal pension is that all citizens of a country (and, in many cases, also residents) should be able to look forward to at least a minimum monthly pension payment from a specified age. The nature of residence and citizenship criteria vary from country to country. Some universal pensions also include a so-called “pensions-test” which reduces the social pension benefit – or removes it all together – for those who are receiving other pension income (this approach is discussed below in Section 4). However, the guiding principle remains that a universal pension provides a guarantee of a minimum pension income. What level might constitute this “minimum” is also discussed in Section 4.

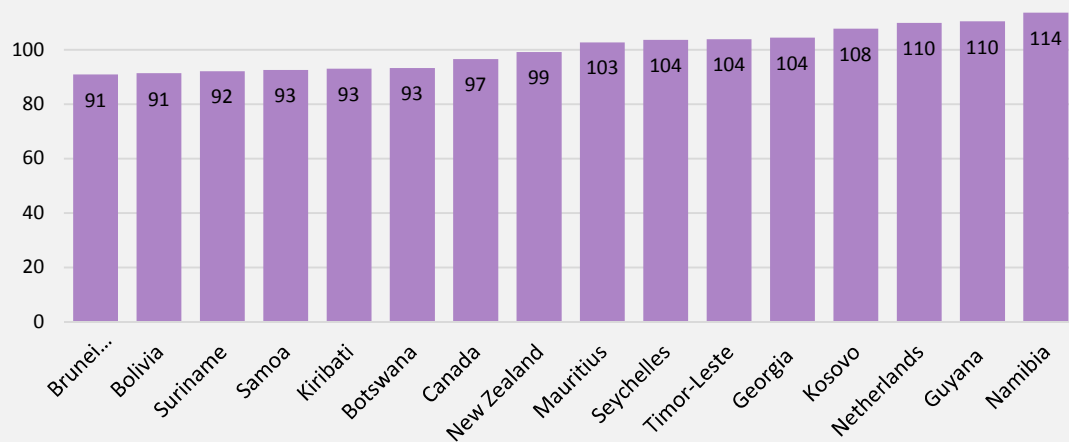
**This universal coverage would ensure that all of the poorest older people are reached, including many of those who miss out from the current social pension.** A universal pension would overcome many of the barriers which exist for poor older people to access the current social pension, in a number of important ways:

- It would **eliminate the issue of poor targeting accuracy** which relate to limits in the design of the *Listahanan*, the subjectivity of the targeting process at local level, and its openness to clientelism and corruption.
- It would **reduce barriers to accessing the social pension**. Rather than potential beneficiaries having to navigate lengthy administrative processes – including proving their own poverty – they would only need to provide details relating to citizenship and residency, which are easily verifiable through identity documents.
- It would **promote increased awareness of the scheme**. The lessened administrative burden on LGUs (compared to the current social pension) would reduce the incentive of

LGUs to minimize publicity about the scheme. This should boost efforts to raise awareness. Similarly, the simple fact that all older people would be eligible would likely increase word-of-mouth awareness of the scheme.

**Analysis from other countries with universal pensions has shown their high success in reaching universal coverage, even in the context of major logistical obstacles.** Figure 3.1 shows the coverage of universal pensions in countries where they exist and data is available. The countries included here are those where there is no pensions test. In all cases, coverage is above 90 per cent, and in over half of cases it is virtually 100 per cent (or more). This chart is calculated by comparing administrative data on numbers of recipients with population projections (mainly from the UN Population Division) which are not necessarily completely accurate. This helps to explain why coverage sometimes appears to be over 100 per cent of eligible older people.<sup>51</sup> The high levels of coverage are striking given that many countries face huge logistical obstacles to increasing coverage. Bolivia, for example, is one of the least densely populated countries in the world with a challenging geography including heavily mountainous areas. Nevertheless, it has been able to cover 95 per cent of older people according to a survey undertaken in 2012. Most of those excluded also appeared to be just above the age of eligibility when they needed to get their identity documents in order.<sup>52</sup> Box 6 describes the case of Thailand which has moved from a small social pension with high exclusion errors, to a universal scheme that has particularly high coverage amongst lower income older people.

**Figure 3.1: Universal schemes reach close to 100% coverage even in poorer countries**  
*Proportion of population over eligibility age receiving universal pensions*



Source: HelpAge International, *Social Pensions Database*.

<sup>51</sup> It is conceivable that coverage exceeding 100 per cent is due to people of younger ages accessing the pension. However, in the cases listed this is unlikely, and more likely to be with unavoidable inaccuracies population projections.

<sup>52</sup> Mauricio Chumacero, Federico Escobar, and Joel Mendizábal, *Documento Descriptivo de Resultados de La Encuesta a Hogares Con Personas Adultas Mayores Y Cercanas a La Edad de 60 Años* (La Paz, 2013).

### Box 6: From exclusion to universality in Thailand

Thailand's social pension was introduced in 1993, but until relatively recently the scheme was means tested, targeting only the poorest older people aged 60 and over. It was only in 2009 that the scheme was expanded to include all older people, apart from those receiving civil service pensions. One of the reasons for the scheme being made universal was as a way to overcome the major targeting errors of means testing. In 2008, the year before the scheme was universalised, over 20 per cent of older people over 60 were receiving the allowance, however, analysis of survey data from the same year shows that at the time fewer than half of the poorest 20 per cent of older people were receiving the allowance. This suggests that over half of the target group were missing out – a major exclusion error.

The universal scheme has had much more success in reaching the poorest older people. As of 2014, 96 per cent of the poorest households with older people (the poorest 20 per cent) were receiving the social pension. In this way, the universal approach has been able to double the coverage of the poorest, and therefore overcoming the major exclusion errors which are inherent in means testing.

*Sources:* Somchai Jitsuchon, Emmanuel Skoufias, and Mitchell Wiener, *Reducing Elderly Poverty in Thailand: The Role of Thailand's Pension and Social Assistance Programs* (Washington, DC, 2012); Charles Knox-Vydmanov, *Work, Family and Social Protection: Old Age Income Security in Bangladesh, Nepal, the Philippines, Thailand and Vietnam* (Chiang Mai, 2017).

### **Looking beyond the poorest, a universal pension would play a crucial role in covering low-income informal sector workers: the “missing middle” in the current pension system.**

Providing a pension to the “non-poor” is sometimes described as a wasteful use of resources but – as explored throughout this report – this view is misguided. Many “non-poor” older people are part of families that face vulnerability to poverty, and many will have had episodes of poverty throughout their working lives. The proportion of older people who are part of families that are “middle class” or “rich” is quite small. Providing pensions to low income, but “non-poor” older people, would not only ensure they can meet their basic needs, but would relieve pressure on their families to provide financial support to older parents, while providing a welcome boost to household income. Similarly, it would give a greater sense of security for younger workers today who can look to their own old age with confidence they will have at least a minimum income.

### **The simple and transparent eligibility criteria would mean a lower administrative burden compared to the current social pension.**

Verifying residency and citizenship criteria (and possibly pension receipt) is a relatively simple task compared to having to verify levels of poverty, which is complex, subjective and time consuming. Also, the fact that poverty is dynamic means that for a scheme to effectively target the poor, retargeting processes are needed. This is not necessary with a

universal pension, which only needs a system of de-registering deceased beneficiaries. International experience suggests that universal pensions can be implemented with administrative costs of five per cent or lower, when designed well.<sup>53</sup> These issues would reduce the administrative costs of staff devoted to the program – such as those working in the Social Pension Management Units in DSWD (at national and regional levels), while also reducing hidden administrative costs. For example, consultations undertaken with Social Welfare staff as part of this study found that many were spending a significant portion of their time on validating older people for the social pension through community investigations. This time is not formally reported and diverts Social Welfare staff away from other roles they are mandated to perform.

### 3.1.2 A foundation for the pension system

**A universal pension would create a foundation pillar for the pension system.** As described above, the assumption behind the core existing contributory schemes (including the SSS) was that they would eventually expand to include the majority of workers, thus providing a near-universal level of coverage. The expansion of a universal pension is a different way to approach the development of a pension system, which recognizes the challenges that low and middle income countries face to expanding contributory coverage. Rather than waiting for contributory coverage to expand, the universal pension would rapidly increase coverage through tax-financing and create a base upon which other schemes could be continually strengthened. In fact this is a similar route to that followed by a number of high-income countries (particularly in Scandinavia) which began by introducing universal basic pensions, later building stronger contributory schemes as wages grew. For example, from 1948 Sweden had a *folkpension* (“people’s pension”) which provided a tax-financed universal social pension to all older people. For many years, this provided the main source of pension income for older people, however, by the 1990s the country had managed to substantially increase coverage of contributory pensions. In a reform in 1994, Sweden therefore decided to introduce a pensions test that reduced eligibility to the social pension for those with adequate contributory pensions.<sup>54</sup>

**While universal pensions are financed from general taxes, they can be seen as being “contributory”.** The method of financing universal pensions is not directly linked to a fund which individuals have contributed to throughout their lives. However, they can be considered a way of recognizing the much broader set of contributions that individuals make throughout their lives. Many of those left out of the formal contributory system have made contributions to society that are equal, if not greater, than those within this system. This includes the contribution of mothers who raise future generations and support family businesses, and farmers who help feed the nation and contribute to economic development. It also includes the majority of the population – rich and

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<sup>53</sup> Larry Willmore, “Universal Pensions for Developing Countries,” *World Development* 35, no. 1 (2007): 24–51, doi:10.1016/j.worlddev.2006.09.008; Charles Knox, *A Social Pension in Zambia: Perceptions of the Cash Transfer Pilot in Katete*, Pension Watch Briefing Series (London, 2009).

<sup>54</sup> Johannes Hagen, *A History of the Swedish Pension System* (Uppsala, 2013), <http://www.nek.uu.se/Pdf/20137ucfs.pdf>.



poor – who contribute to the economy through indirect taxes, such as VAT. It is notable that around one third of tax revenue in the Philippines is from VAT.<sup>55</sup>

**Such an approach could sharpen the focus of other parts of the pension system.** As outlined in Section 2, there are a number of proposals on the table to try to ensure older people of different sectors have an adequate pension in old age, that – at the very least – keeps them out of poverty. For SSS pensioners this is in the form of a proposed PhP 2,000 per month top up, for informal sector workers some form of matching of contributions is proposed, and for the poorest senior citizens there is the social pension. Arguably, all of these initiatives are attempting to address the same issue, which is that low levels of incomes in the Philippines mean that many cannot afford to save for even a basic pension in old age. To some extent, tailoring approaches to different sectors makes sense, but there is also a danger it leads to fragmentation within the pension system. This makes it difficult for individuals to navigate the system, especially if they move between sectors throughout their lives, as is common in the Philippines. Fragmentation can also lead to seemingly unfair privileges being given to one group, while others are left behind. In this context, one of the advantages of a universal pension is that it would provide one part of the pension system that was fully responsible for the task of ensuring a minimum income in old age. The simple message for citizens would be that the universal pension provides a minimum which everyone can expect, while contributory pensions ensure higher levels of adequacy. This approach would allow contributory schemes to more precisely focus on their mandate to provide a safe and predictable place for individuals for save for old age.

## 3.2 WHAT WOULD BE THE IMPACT?

**A growing body of international evidence, complemented by new analysis in the Philippines, highlights the wide variety of positive impacts that could be expected from a universal social pension.** It is sometimes assumed that the impacts of pensions are mainly limited to older people, as direct recipients of the cash. However, much as the lives of older people are strongly intertwined with their families and the wider economy, pension systems can have an impact well beyond direct beneficiaries. This section provides an overview of the kinds of outcomes that may be anticipated in the Philippines, addressing the different level of impact, from older people as recipients, to the wider economy.

### 3.2.1 Health and dignity in old age

**For older people, receiving a predictable income which they have control over can have a transformative impact on their dignity and autonomy.** Section 1 described how the reduction in income from work in old age means older people become increasingly dependent on children's income, which can compromise their ability to make decisions about their own lives. Universal pensions have proven to turn this situation around, with older people regaining autonomy, and

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<sup>55</sup> International Monetary Fund, *Philippines: Staff Report for the 2016 Article IV Consultation* (Washington, DC, 2016), 43.

increasing participation in family decision making. A study of a universal pension in Mexico, for example, found that its introduction led to older people reporting they were more involved in household decision making, including around expenditure. They also had more money to spend on their own needs – particularly healthcare – that they were previously reluctant to burden their family with, illustrated in one respondent’s account:

*“I used to be ashamed because I didn't have enough money to buy the things I needed. Whenever I got sick, I would have to beg for money. But now, at least we have some money. If I get sick, at least I can buy medicine now.”<sup>56</sup>*

**By strengthening the autonomy older people, social pensions have been found to contribute in reducing levels of depression.** Recent research into the impact of the New Rural Pension Scheme in China found a sizeable reduction in depression susceptibility due to pension income.<sup>57</sup> Similar impacts have been found in Latin America. A recently completed study into the social pension in Peru found that the scheme reduced the level of depression of recipients by 9 per cent, and increased their sense of contribution and self-worth by 12 per cent and 7 per cent respectively.<sup>58</sup> The study into the impact of the universal pension in Mexico – already mentioned – also found a significant overall effect on depressive symptoms.<sup>59</sup> These potential impacts are extremely relevant in the context of the Philippines given the levels of depression amongst older people, described in Section 1.

**Impact evaluations show significant impacts of social pensions on access to healthcare for older people.** In El Salvador, 21 per cent of pension income was found to be spent on health expenses, increasing the likelihood of seeking medical attention by 5.4 per cent.<sup>60</sup> Similarly, in Mexico, households receiving the universal pension reported a 25 per cent decline in individuals reporting not buying medicines because they were too expensive.<sup>61</sup> While there have been signs of impacts of the existing social pension on health expenditure in the Philippines, these have been limited by the low benefit level.

**Universal pensions have been found to have a particularly empowering role compared to means-tested schemes, as they are perceived as a right rather than a gift.** The four-year assessment of the social pension found that many older people perceived the scheme as a “blessing” or a “gift” rather than a legal entitlement. This affected accountability around the scheme with one

<sup>56</sup> Aarón Salinas-Rodríguez et al., “Impact of the Non-Contributory Social Pension Program 70 Y Más on Older Adults’ Mental Well-Being,” *PLoS ONE* 9, no. 11 (2014): 6, doi:10.1371/journal.pone.0113085.

<sup>57</sup> Xi Chen and Tianyu Wang, *Does Money Relieve Depression? Evidence from Social Pension Eligibility*, Discussion Paper Series (Bonn, 2016), <http://ftp.iza.org/dp10037.pdf>.

<sup>58</sup> Ministerio de Economía y Finanzas, *Reseña de Evaluación de Impacto: Programa Nacional de Asistencia Solidaria Pensión 65 (2012-2015)* (Lima, 2015).

<sup>59</sup> Salinas-Rodríguez et al., “Impact of the Non-Contributory Social Pension Program 70 Y Más on Older Adults’ Mental Well-Being.”

<sup>60</sup> Sebastian Martinez, Michelle Pérez, and Luis Tejerina, *Atacando La Vulnerabilidad En Los Adultos Mayores: Evaluación de Impacto de La Pensión Básica Universal, Programa Nuestros Mayores Derechos En El Salvador* (Washington D.C., 2015).

<sup>61</sup> Emma Aguila et al., *Experimental Analysis of the Health and Well-Being Effects of a Non-Contributory Social Security Program* (Santa Monica, 2010).

recipient saying they would be “abusing” local authorities if they complained about implementation of the scheme, given they have “had mercy” on older people.<sup>62</sup> Universal pensions can gradually shift this mentality by putting into practice the principle that all older people deserve a pension, in appreciation of the contributions they have made throughout their lifetime. This not only means older people can claim the benefit without shame, but are more likely to highlight issues with the programs which in turn can improve program quality.

### 3.2.2 Reducing family poverty

**Pensions boost family incomes in two important ways.** First, receiving a pension reduces the need for children and other family members to provide financial support to older family members. This helps families reallocate expenditure towards other priorities, such as children’s education, or initiatives to improve household livelihoods. Second, recipients transfer significant shares of their income with the wider household; whether by contributing to the communal finances (e.g. purchasing food) or via direct transfers to children and grandchildren to cover key expenses. A study in Namibia, for example, found that only 28 per cent of pension income was spent on older people alone, while the rest was shared with others (especially grandchildren).<sup>63</sup>

**These positive impacts on families have already been seen on a small scale in the implementation of the social pension.** The four-year review of the social pension found that – despite the low level of the benefit – many older people were using it to support wider family needs. One implementer, for example, described how older people often prioritized the expenditure needs of grandchildren over their own:

*“ . . . Kasi napakaliit talaga na halaga kasi nung ano..nung five hundred. Kasi yung mga apo pa. Kapagka may’ron yang pera mas nauuna ang apo eh. Bago yung sarili niya kaya nga kung minsan two hundred nalang sa kanya o kaya one hundred dahil sa mga apo. Nag-papaaral ng apo. Yung mga nag-papaaral ng apo. . . ”* (The benefit amount is really small. five hundred. They also give some amounts to their grandchildren. Whenever they have money, they would prioritize their grandchildren before themselves. Sometimes only P200 or P100 is left for them because they are sending their grandchildren to school)

**Implementer, CSWDO, Quezon City**

**Evidence from social pensions in other countries shows the impacts on children can be particularly significant.** This appears to be due to the fact that – when there is a boost in household income – grandparents and other family members prioritize children’s needs. In fact, the impacts of universal pensions on children can sometimes be more significant than those programs directly targeted at children, partly as governments tend to spend more on pension schemes than family grants. Some key ways in which pensions impact on children include:

<sup>62</sup> Knox-Vydmanov, Horn, and Sevilla, *The Philippine Social Pension at Four Years: Insights and Recommendations*.

<sup>63</sup> Stephen Devereux, *Social Pensions in Namibia and South Africa*, IDS Discussion Paper (Brighton, 2001).

- **Reducing child poverty:** Georgia - a lower-middle income country in Eastern Europe – introduced a universal pension in 2006. The pension is just one piece of a wider social protection system, which includes other schemes such as a poverty targeted social assistance scheme (not dissimilar to the 4Ps). Surprisingly, it is the pension that has the greatest impact on children, accounting for 69 per cent of the reduction in child poverty from the social protection system.<sup>64</sup>
- **Better nutrition:** Food is the priority in most households, so where this is scarce it is often the first destination of pension income. This can lead to better nutritional outcomes for children. In South Africa, girls in households with an older person receiving the social pension were found to be 3-5cm taller than girls in other households, largely as a result of improved nutrition.<sup>65</sup>
- **Increased school enrolment and reduced child labor:** Pensions have been shown to reduce barriers faced by children to getting a good education. These include the cost of schooling, but also the cost of children not working. In Bolivia, cases of child labor were more than halved in households receiving the universal pension, and school enrolment was 97 per cent (compared to 89 per cent in non-recipient households).<sup>66</sup> Similar outcomes have been found in Brazil.<sup>67</sup>

**Simulations for the Philippines suggest a universal pension could reduce the national poverty rate by up to 3 percentage points (a 9 per cent reduction), lifting over three million Filipinos out of poverty.** Figure 3.2 presents the results of simulations undertaken using APIS 2013 data, which estimate the impact of a universal pension on the national poverty rate. Simulations assumed all older people 60+ would receive a pension, with different benefit level scenarios. A benefit of PhP 2,000 for all older people 60+ would reduce poverty by over three percentage points, which is equivalent to three million people being lifted out of poverty. These three million would not only include older people, but also their family members. The impact of simply expanding the current social pension of PhP 500 would be lower, at around 1 percentage point (a 4 per cent reduction).

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<sup>64</sup> Stephen Kidd and Bjorn Gelders, *Child Wellbeing and Social Security in Georgia: The Case for Moving to a More Inclusive National Social Security System* (Tbilisi, 2015).

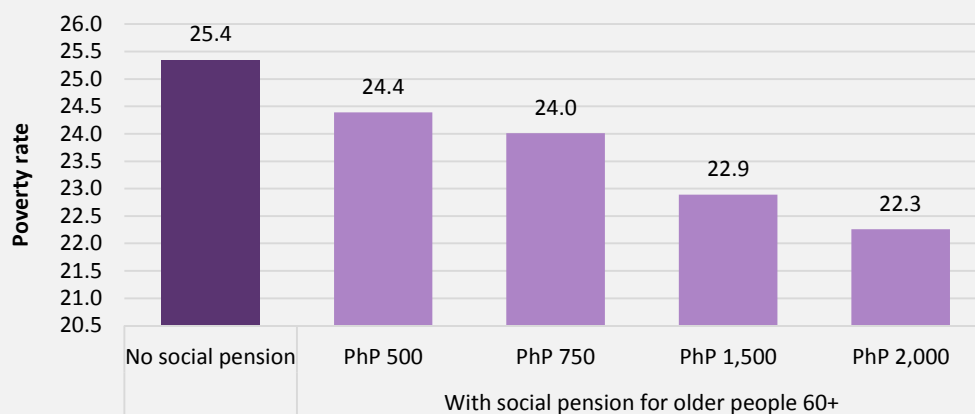
<sup>65</sup> Anne Case, “Does Money Protect Health Status? Evidence from South African Pensions,” *NBER Working Paper 8495: Cambridge, MA*, no. October (2004): 1–32, doi:10.2139/ssrn.279919.

<sup>66</sup> Joel Mendizabal, *Redistribution of Wealth and Old Age Social Protection in Bolivia*, Pension Watch Briefing Series (London, 2013).

<sup>67</sup> I E de Carvalho Filho, “Household Income as a Determinant of Child Labor and School Enrollment in Brazil: Evidence from a Social Security Reform,” *Economic Development and Cultural Change* 60, no. 2 (2008): 399–435.

**Figure 3.2: A universal social pension would reduce poverty by between 1 and 3 percentage points**

*Poverty rate before and after social pension<sup>68</sup>*



*Source: Microsimulation based on APIS 2013*

**These impacts would be significant relative to historical poverty levels, and go a long way to achieving the poverty reduction objectives of the current administration.** While these impacts may appear modest at first, they are significant relative to the relatively small reductions in poverty over the last two decades. The 3 percentage point reduction from the more ambitious scenario here (of PhP 2,000) is a 9 per cent reduction relative to the baseline of 25.4. This 9 per cent is over a quarter of the 30-35 per cent poverty reduction targeted by the current administration, that aims to reduce the poverty rate to 17 per cent by 2022.<sup>69</sup> Indeed, if the reported poverty rate in the Philippines is already 21.6 per cent – as reported by the PSA for 2015 – a 3 percentage point reduction from a universal pension would take the country nearly two thirds of the way to the target poverty rate of 17 per cent. Even a 1 percentage point reduction from a universal pension of PhP 500 could take the country a fifth of the way to this objective. It should also be noted that these results only represent the “day after” impact of the policy, in other words, the impact of simply increasing the income of an eligible household by the value of the social pension. This means they do not account for economic multipliers at the micro or macro level (discussed below), nor the potential returns if the pension income is invested in livelihood activities.

**The impacts of a universal pension would be significantly higher than a means-tested scheme.** It is often assumed that a scheme targeted to poor older people would have similar impacts to a universal scheme, without seeming to “waste” money on the non-poor. However, the fact that

<sup>68</sup> Due to a number of methodological factors the poverty rate shown here is slightly higher than the published poverty rate for the first semester of the APIS 2013 (24.9 per cent), however, it is within the confidence interval.

<sup>69</sup> RG Cruz, “Duterte Gov’t Eyes Bringing down Poverty Rate to 17 Pct,” *ABS-CBN News*, August 22, 2016, <http://news.abs-cbn.com/business/08/22/16/duterte-govt-eyes-bringing-down-poverty-rate-to-17-pct>; Teresa Cerojano, “Duterte Government Targets 30 Pct Drop in Philippine Poverty,” *The Seattle Times*, June 20, 2016, <http://www.seattletimes.com/business/duterte-team-aims-for-30-percent-cut-in-philippine-poverty/>.

means testing results in significant exclusion errors mean that this assumption is incorrect. In order to test how exclusion errors affect the impact of a means-tested scheme, simulations were undertaken to compare impact of a scheme providing a universal pension to all older people to a means-tested scenario only targeting 23 per cent of older people. Both scenarios assumed a benefit level of PhP 1,500 per month and an age of eligibility of 60 years. Were the means-tested scheme perfectly targeted at the poor it would cover all older people living in poverty<sup>70</sup> meaning that it should have the same poverty impacts as a universal scheme. However, in practice, exclusion errors would mean that some of those below the poverty line would miss out, therefore lessening the impact. In the simulations, exclusion errors for the means-tested scenario were estimated on the basis of the actual targeting performance of the 4Ps, which is the only poverty-targeted cash transfer in the Philippines for which data on targeting performance exists.<sup>71</sup> The results in Figure 3.3 highlight that a universal pension would have over double the impact of a means-tested pension on poverty and food poverty (both in terms of poverty rate and poverty gap<sup>72</sup>). This is because it would be able to reach all older people living in poor households, while a means-tested scheme would miss many out. It should be noted that a universal pension at this benefit would have a higher cost than the means-tested scenario (around four times as expensive) as it would reach around four times as many recipients. However, unlike the means-tested scheme, it would also provide support to all older people above the poverty line, including many who face high levels of vulnerability to poverty.

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<sup>70</sup> 17.7 per cent of older people live in poverty according to the official methodology.

<sup>71</sup> Targeting errors for the 4Ps were calculated on the basis of the actual income distribution of individuals (of all ages) living in households receiving the 4Ps in 2014 (using APIS 2014 data). According to the survey, in 2014, 23 per cent of the total population were living in a household receiving the 4Ps. The actual income distribution of recipients was calculated on the basis of the pre-transfer household income. Microsimulation of a means-tested social pension assumed that for a scheme targeting the poorest 23 per cent of older people, actual recipient older people would be distributed in the same fashion as with the 4P recipients. For the universal scenario it is assumed all older people receive the benefit, which reflects the virtually universal coverage that other low- and middle-income countries with universal pensions have achieved.

<sup>72</sup> The poverty gap is a measure of the depth of poverty.

**Figure 3.3: A universal pension would have greater impacts than a means-tested scheme**

Percentage point fall in poverty resulting from a social pension (PhP 1,500 to older people aged 60 and over)



Source: Microsimulation based on APIS 2014

**A universal pension would also provide a means to systematically reduce inequality in the long run.** Progressive pension systems are one of the main tools at the disposal of governments to directly redistribute wealth, and ensure the rewards of economic growth are shared amongst the population as a whole. As a result, in high income countries, pensions are one of the most important public policies in reducing inequality. Across European Union countries, pensions are responsible for about a half of the decrease in inequality from taxes and transfers.<sup>73</sup> Yet similar impacts are also being found in low- and middle-income countries that have invested in their pension system. In Brazil, a country with relative success in reducing inequality, basic pensions were responsible for one-third of the reduction in the Gini coefficient (a measure of inequality) between 1995 and 2004.<sup>74</sup> In total, pensions reduce inequality by 12 per cent, which compares to just 0.6 per cent attributed to Bolsa Familia, the country's conditional cash transfer.<sup>75</sup>

**Simulations show that a universal pension would have immediate impacts on reducing levels of inequality.** Figure 3.4 shows the impact a universal pension for older people aged 60 and over in relation to two common measures of inequality – the Gini coefficient and the Palma index. The most generous benefit level of PhP 2,000 would reduce the Gini coefficient by nearly one percentage point, while the same scenario would reduce the Palma index by 4.7 per cent (from 2.76 to 2.63).

<sup>73</sup> Social Situation Monitor, "The Effect of Taxes and Benefits in Reducing the Inequality Arising from the Distribution of Original Income," accessed December 9, 2016,

<http://ec.europa.eu/social/main.jsp?catId=1050&intPageId=1954&langId=en>.

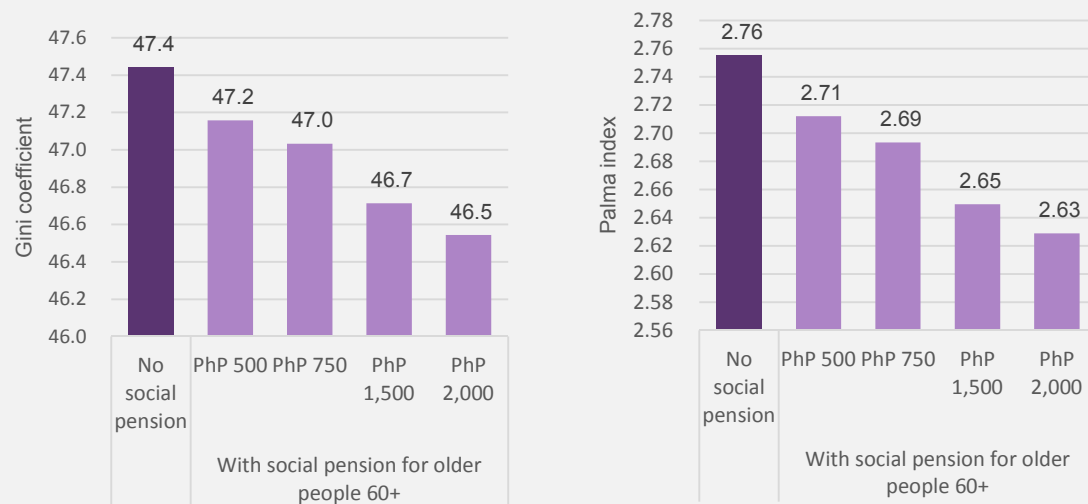
<sup>74</sup> Fabio Soares et al., *Cash Transfers Programmes in Brazil: Impacts on Inequality and Poverty*, Working Paper Series (Brasilia, 2006), doi:ISSN: 1812-108X.

<sup>75</sup> International Social Security Association, *Social Security Coverage Extension in the BRICS: A Comparative Study on the Extension of Coverage in Brazil, the Russian Federation, India, China and South Africa*, International Social Security Association (Geneva, 2013).

Less generous scenarios would have smaller impacts, but these would still be important. On the face of it, the impacts on the Gini coefficient (up to 1 percentage point) seem small, nevertheless, it should be put in perspective that for all countries in the world the Gini coefficient ranges between a high of around 65 and a low of around 25.

**Figure 3.4: A universal social pension would reduce levels of inequality**

*Gini coefficient and Palma ratio before and after a social pension*



Source: Microsimulation based on APIS 2014

### 3.2.3 An economic stimulus

**Pensions can support economic development by helping households to invest in their livelihoods.** Increasing household income not only boosts consumption (e.g. on food, healthcare and education), it can also support investments. This has been seen in Bolivia's universal pension, where rural households invested pension income into agricultural activities. A study of the impact of the scheme found that the return from these livelihood investments translated into household consumption 1.5 times the value of the pension.<sup>76</sup> There is also evidence of how pension income can help younger family members in their search for work. In South Africa, for example, research found that young men were more likely to become labor migrants if they were living in a household with an older person eligible for the social pension. Pension income also seemed to help facilitate migration of younger household members for work.<sup>77</sup>

<sup>76</sup> Sebastian Martinez, "Pensions, Poverty and Household Investments in Bolivia," no. October (2004): 1–45, [http://eml.berkeley.edu/~webfac/bardhan/e271\\_f04/martinez.pdf](http://eml.berkeley.edu/~webfac/bardhan/e271_f04/martinez.pdf).

<sup>77</sup> C Ardington, T Bärnighausen, and A Case, *Social Protection and Labour Market Outcomes of Youth in South Africa*, 2013.



**Universal pensions can also create multiplier effects which boost local economies.** Many impact evaluations of social pensions describe how local traders record increased business due to pensioners having more money to spend. The income increase for pensioners translates into increased incomes of traders, which then travels further down the chain to those who produce the products they sell. In Uganda, local markets have become significantly more dynamic as a result of the introduction of a universal pension.<sup>78</sup> Recent research in Thailand shows how older people spent their money, and found that majority of the pension was spent, or shared, within the community.<sup>79</sup> In Africa, where more in depth cross-country research has been done into these economic dynamics, research has found nominal income multipliers between 1.27 and 2.52. This implies that – for every dollar put into a community through a cash transfer – between 0.27 to 1.52 *additional* dollars were circulating in the local economy.<sup>80</sup> These multiplier effects suggest that the eventual impact may be greater than those presented in Figure 3.2 above.

**Simulations show that the macro-economic impact of a universal social pension would be comparable to a similar scale of investment in infrastructure.** A common perception amongst policy makers is that cash transfers are merely a handout that would have little macro-economic benefit compared to investment in more productive sectors, such as infrastructure. However, modelling the impact of a universal social pension at a macro-economic level suggests this is not the case. Figure 3.5 shows the results of simulations of the expected impact of a universal pension on the gross output of the Philippine economy, compared to a similar investment in infrastructure. The simulations were undertaken using a 2010 Social Accounting Matrix (SAM) multiplier model which represents how different agents of the economic system interact, and can be used to measure the economic multipliers resulting from a given investment in one part of the system. In this case, the simulations compared the impact of a universal pension of PhP 1,500 to all older people aged 60 and over (costing 1 per cent of GDP) to a 1 per cent of GDP investment in construction activity. Strikingly, while impact of a universal pension on gross output is similar to an investment in infrastructure, at 1.03 and 1.17 respectively. It should be noted that results are most useful for assessing the relative impact of different interventions, rather than their absolute impact.

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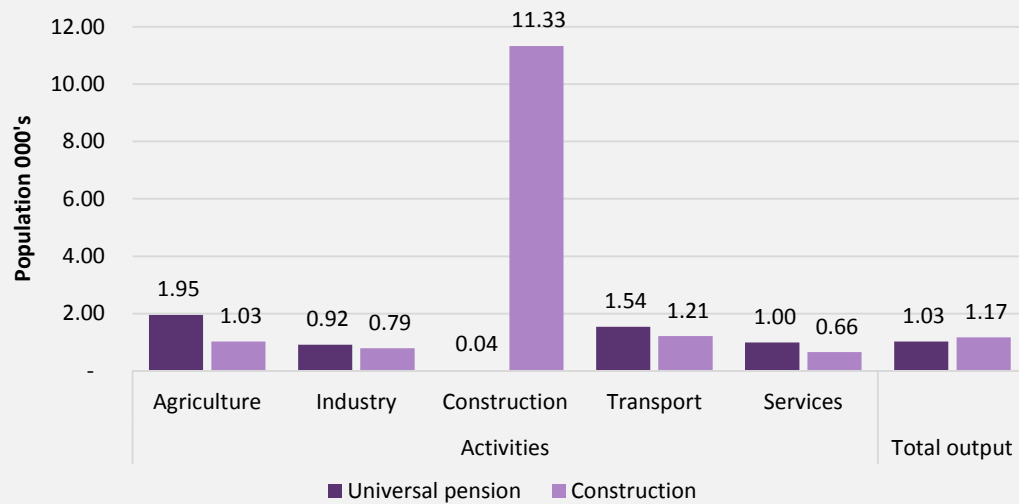
<sup>78</sup> Fareeha Ibrahim and Jane Namuddu, *Uganda's Senior Citizens Grant, Direct and Spill-Over Effects of Cash Transfers in Kiboga and Kyenjojo Districts* (Kampala, 2014).

<sup>79</sup> Foundation for Older Persons' Development, *The Impact of the Old Age Allowance on the Lives of Older People and the Local Economy in Thailand* (Chiang Mai, n.d.).

<sup>80</sup> J. Edward Taylor, Karen Thome, and Mateusz Filipiński, "Local Economy-Wide Impact Evaluation of Social Cash Transfer Programmes," in *From Evidence to Action: The Story of Cash Transfers and Impact Evaluation in Sub-Saharan Africa*, ed. Benjamin Davis et al. (Oxford: Oxford University Press, 2016), 94–114.

**Figure 3.5: The macro-economic impact of a universal pension would be comparable to a similar investment in infrastructure**

*Change in gross output by major activities over the base values (per cent)*



*Source: Simulation based on SAM model.*

**The macro-economic impact of a universal pension would be particularly large for agricultural activities and for boosting household consumption.** The results in Figure 3.5 show that the biggest impact of investment in construction would – unsurprisingly – be in construction activities. However, in all other sectors a universal pension would have a greater impact. This is most pronounced in agriculture, where a pension would have nearly double the impact than investment in construction. This impact is strongly related to the fact that a universal pension enters the economy through households, which are strongly linked to agriculture and the local economy through both their demand for food and participation in production. Indeed, further analysis shows that the increase in household consumption resulting from a pension would be 77 per cent higher than that resulting from an investment in construction. The distribution of these increases in household consumption would also be pro poor (mainly benefitting poorer households), compared to increases from construction which would be more flatly spread across the income distribution.

**Pension systems can also be used as a macroeconomic stabilizer in times of crisis.** In high income countries, it is economic orthodoxy that increasing social protection payments – such as pensions – is an important strategy for reducing the impact of economic downturn. This is because they put more cash into consumers who can help increase spending. Pensions tend to be particularly important in this mix as they usually form the biggest single part of comprehensive social protection systems. In the meantime, there is a tendency for older people to use most of their income on consumption (rather than saving).

**In recent years, social pensions in both China and Thailand have been used as a tool of economic stimulus.** The rapid universalization of Thailand’s social pension in 2009 (described in Box 6 above) was designed as a counter-cyclical response to the global financial crisis. China has also been significantly investing in its pension system in recent years and since 2009 has expanded its

social pension system to cover the majority of older people over 60.<sup>81</sup> A large part of the rationale for the scheme was to boost consumption, although not in response to a crisis but rather a longer term structural issue. China has identified the need to increase domestic consumption as a core strategy for ensuring economic stability, but household saving tends to be high. One reason for this is that, in absence of an adequate pension system, many individuals were making savings for old age, and unwilling to spend this money due to uncertainty about future costs and emergencies that may arise. A basic pension in old age has been seen as a way to provide greater security and encourage individuals to free up their savings.<sup>82</sup> Li Guoxiang, vice director of the Chinese Academy of Science's Rural Economy Research Bureau, described the logic of the scheme at the time when the scheme was being introduced:

*"It's a measure to stimulate domestic consumption. Peasants have saved a certain amount of money. How to persuade them to consume? The government must guarantee more safety to them."*

*Li Guoxiang, Chinese Academy of Social Sciences*<sup>83</sup>

Recent research in China has found that receipt of a pension does indeed lead to higher levels of household consumption.<sup>84</sup>

**Universal pensions can provide indirect benefits to underpin sustained economic development.** The investments in children's nutrition and education described above constitutes an investment in the human capital of future generations. Human capital formation is critical in providing for a more productive and dynamic economy in the future. In the meantime, by reducing inequality and increasing security for working Filipinos, universal pensions – as part of a social protection system – contribute to greater social cohesion.

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<sup>81</sup> Andrea Vilela, *Pension Coverage in China and the Expansion of the New Rural Social Pension*, Pension Watch Briefing Series (London, 2013).

<sup>82</sup> Qing Zhao, Zhen Li, and Taichang Chen, "The Impact of Public Pension on Household Consumption: Evidence from China's Survey Data," *Sustainability* 8, no. 9 (2016): 890, doi:10.3390/su8090890.

<sup>83</sup> Isabel Ding, "Rural Pension Plan Takes Off," *China International Business Magazine*, December 4, 2009, <http://www.seniorsworldchronicle.com/2009/12/china-rural-pension-plan-takes-off.html>.

<sup>84</sup> Zhao, Li, and Chen, "The Impact of Public Pension on Household Consumption: Evidence from China's Survey Data."

# 4

## DESIGN OPTIONS

**F**or governments seeking to introduce a universal social pension, the two key design decisions relate to eligibility, and to the adequacy of the benefit level. These two decisions are fundamental to determine who is covered and the level of protection the pension provides. They are also the main determining factors of the cost of a universal pension.

### 4.1 WHO SHOULD RECEIVE IT?

#### 4.1.1 Age of eligibility

**At present, an age of eligibility of 60 years appears to be most appropriate for a social pension in the Philippines.** The Expanded Senior Citizens Act of 2010 defines senior citizens as those aged 60 and over, and this is also the eligibility age for most pensioners under the SSS and GSIS schemes. The life expectancy of 69 years in the Philippines is also modest by regional standards, as is the share of older people currently aged 60 and over (7.5 per cent). Figure 1.6 (on page 27, above) also showed that the likelihood of being in employment begins to decline before the age of 60 for both men and women, suggesting many 60 year olds are already facing barriers to continued work. For those who still remain economically active, providing support in the form of a pension should not be considered a waste. Evidence from other countries such as Colombia shows how pension income can support older people in their 60s who remain economically active to boost their livelihoods and help prepare for later years of old age.<sup>85</sup>

**Looking to the future, there is a strong case for considering how the age of eligibility might increase as the population ages.** If the Philippines is successful in preparing for an aging population, longer lives should also be accompanied by healthier lives, which should enable individuals to remain in active employment. Whether or not this will happen will depend on a range of factors, which include social protection but also the quality of healthcare, and healthy living and working environments. Assuming this is the case, it would be logical to increase the age of eligibility to take this into account. Such moves would also support the financial sustainability of a social pension (as discussed below). This is already a scenario that has been floated in relation to the GSIS

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<sup>85</sup> Tobias Pfutze and Carlos Rodríguez-Castelán, *Can a Small Social Pension Promote Labor Force Participation? Evidence from the Colombia Mayor Program*, Policy Research Working Paper (Washington, DC, 2015), doi:10.1596/1813-9450-7516.

and SSS pensions.<sup>86</sup> Nevertheless, population ageing in the Philippines is set to happen at a relatively slow pace compared to other countries in the regions. It is therefore important that the process is not overly hasty, but involves pragmatic discussion that weighs the benefits with the potential costs to those who rely on the social protection system

### 4.1.2 Scope for pensions testing

According to the definition used here, a universal pension could be designed to exclude some older people who receive other pensions. The key function of a universal pension is that it should ensure all older people receive at least a minimum income, yet this objective could still be achieved while removing – or lowering – the benefit for those who receive other kinds of pensions (such as the SSS and GSIS). This approach is called “pensions testing” and is used in a number of other countries with social pensions, including Chile, the Maldives, Nepal, Thailand and various Scandinavian countries. Figures 4.1–4.4 present a visual representation of the various options available for eligibility of a universal pension in the Philippines. The Figures present coverage of older people by different kinds of pensions (from poorer to wealthier) on the horizontal axis, and the level of income received from those pensions on the vertical axis. Figure 3.1 shows the situation of the current pension system with the social pension targeting the poorest older people, contributory pensions covering some relatively better-off older people, and a large “missing middle” of those not covered.

A universal pension with no pension test would have a number of advantages. As shown in Figure 4.2 this approach would cover all older people and provide a foundation to the wider pension system. The only eligibility criteria would be age and residence/citizenship, meaning registration processes would be administratively light. Another advantage is that it would avoid perverse incentives which can be created by other targeting approaches. All other pension income (e.g. SSS, GSIS, or any other scheme) would be additional to the social pension, meaning there would be no disincentive to participate in such schemes. The World Bank, in its seminal publications on pension provision “Averting the Old Age Crisis” in 1994, provided one of the most succinct summaries of the advantages of universal pensions:

*“Administratively, this is the simplest structure, with the lowest transaction costs, for the public pillar — an important advantage in developing countries with limited institutional capacities and incomplete record-keeping systems. It avoids the disincentive to work and save inherent in means-tested plans. Its universal coverage helps ensure that the poverty reduction objectives are met, [and] provides a basic income for all old people.”<sup>87</sup>*

**Pensions testing could reduce the cost of a universal pension, but could create perverse incentives, and may undermine political support for the scheme.** Figure 4.3 shows a scenario where a “blunt” pensions test is used, meaning that older people with other pension income are simply excluded from the social pension. A pensions test of this nature is used in the current social

<sup>86</sup> Dorfman, Bogomolova, and Razat, *Republic of the Philippines Review of the Social Security System: Considerations for Strengthening Sustainability and Coverage*.

<sup>87</sup> World Bank, *Averting the Old Age Crisis* (Washington, DC, 1994), 240.

pension, along with the wider set of criteria already discussed. This approach would lower the cost of the scheme (the extent of which will be discussed below) but would create other issues. Most relevant is that such an approach effectively creates a tax on those who have contributed to other schemes. The risk here is that – over time – individuals may choose not to enroll in these schemes to ensure they remain eligible for the social pension.

**Excluding SSS pensioners with a pensions test could be particularly problematic given the low level of benefits for many retirees.** At present the lowest benefit level of retirement pensions in the SSS (at PhP 1,200) is not far above the benefit of the social pension at PhP 500. If – as recommended by this report – the benefit level for the social pension were to increase, the benefit levels of the two schemes may become similar. This may leave some SSS pensioners asking why they contributed to the scheme for 10 years or more, only to receive a comparable benefit to those who did not formally contribute. For self-employed workers, it may lead them to avoid contributing altogether.

**Pensions testing might also erode political buy in.** In simple terms, the sustainability of a tax-financed scheme such as a universal pension depends on the willingness of taxpayers to continue financing it. One challenge of excluding existing pensioners is that they are generally those who have had higher incomes and paid more tax – in absolute terms – throughout their working lives. Excluding these individuals from a scheme that they have helped to finance may undermine the political support for the scheme.

**One way to soften the incentive effects of pensions testing is to use a taper.** This option is presented in Figure 4.4. Rather than simply excluding other pensioners from a social pension, a taper would reduce the benefit gradually according to the size of their other pension income. For example, the system might use a formula so that for every PhP 5 of contributory pension, an individual would lose PhP 1 of the social pension. In this case, an SSS pensioner receiving the lowest retirement pension (PhP 1,200) would receive a PhP 240 reduction to their social pension, meaning they would receive receive PhP 260, and a total pension income of PhP 1,460 (PhP 1,200 + PhP 260). Different levels of tapers are used in many Scandinavian countries, as well as Chile and the Maldives. One challenge of this approach is that calculation of these benefits is administratively more complex, and demands strong administrative data on the contributory side. In this context, simpler option would be to simply have a reduced flat-rate social pension benefit level for all contributory pensioners. In Bolivia, the benefit level is reduced by one quarter for all older people with income from the contributory system.<sup>88</sup> Finally, one scenario would be to treat each contributory scheme differently. In the Philippine case, there would be a logic for only applying a pensions test to schemes with relatively high benefit levels (e.g. for GSIS or schemes for the Armed Forces), but not apply a test for SSS pensioners.

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<sup>88</sup> Mendizabal, *Redistribution of Wealth and Old Age Social Protection in Bolivia*.

Figure 4.1: Current pension system

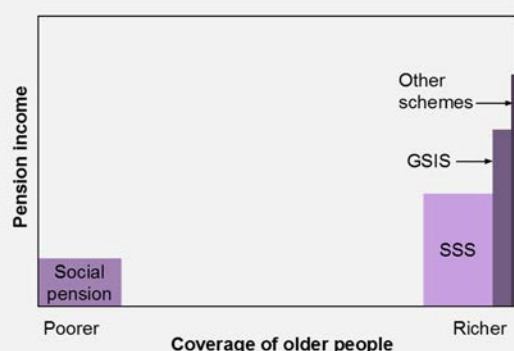


Figure 4.2: Universal pension

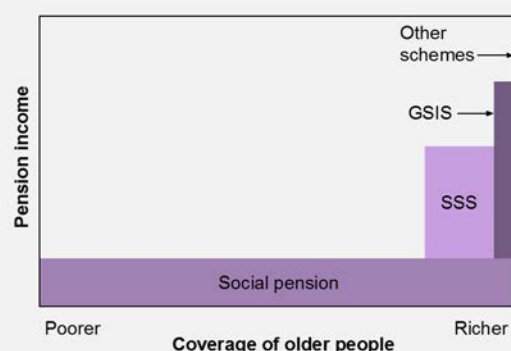


Figure 4.3: Pensions-tested pension

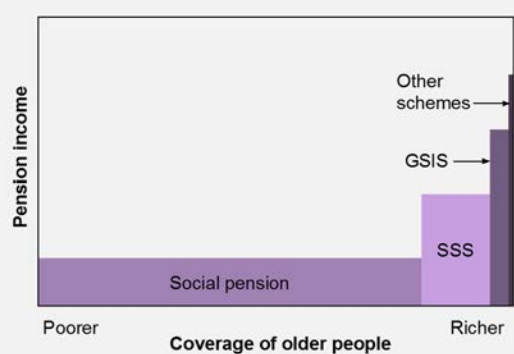
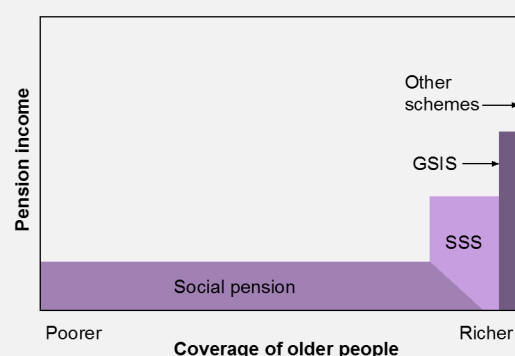


Figure 4.4: Pensions-tested with taper



Note: Pension income is not to scale (e.g. average SSS pension is more than 7 times the social pension in reality)

## 4.2 HOW MUCH SHOULD THEY RECEIVE?

**There is no simple answer to what constitutes an adequate social pension benefit.** Answering this question means assessing the costs of living, yet it will also depend on what is understood by a “minimum” pension level, which relates to understanding of poverty in a given context. For example, the level could be seen as an absolute minimum level of subsistence to keep older people out of extreme poverty, or it could be seen as needing to be adequate enough to cover a wider package of basic needs, to enable independent living and a dignified old age. Identifying the benefit level for any cash transfer will also inevitably need to respond to short-term questions of affordability. In the end, identification of the right benefit level for a social pension is something that needs to happen through democratic processes in the country. Nevertheless, there are a number of useful benchmarks and experiences that can help inform this discussion.

**A reasonable ambition for adequacy would be to peg the benefit to the national poverty line.**

As discussed in Section 2, the PhP 500 benefit level for the social pension is widely recognized to be inadequate relative to both national and international benchmarks. This severely limits the potential of the scheme to support older people to meet their basic needs and cover medical expenses. The Philippines’ national poverty line provides the most established benchmark for the

income needed for an individual to meet their basic needs. The latest official poverty line was PhP 1,756 per person in 2014, which is over three times the current benefit. Yet a benefit of this level is not inconceivable. Indeed, the original proposal for the benefit level of the social pension under RA9994 of 2010 was PhP 1,500, later reduced during deliberations. PhP 1,756 is also less than the PhP 2,000 top up proposed for SSS pensioners. Nevertheless, this does not necessarily mean this benefit level can be introduced overnight, and considerations around affordability means it may take some years to reach.

**Importantly, a benefit level at the poverty line should not necessarily constitute the ultimate ambition, and the benefit level for the social pension should be reviewed regularly, especially where no automatic adjustments are built in.** As the Philippine economy grows, there may well be a move away from a focus on absolute poverty to one on relative poverty (which is the main way in which poverty is measured in high income countries). It should also be noted that a benefit at the 2014 poverty line is still only equal to 15 per cent of average income (2016 prices) which is lower than social pension benefits in other countries including Brazil, Georgia and South Africa – schemes which have seen some of the greatest impact on poverty and inequality.

**The benefit level should, as a minimum, be indexed to inflation from year to year.** As discussed above, for every year the benefit level remains the same (in monetary terms) the real value falls, entailing beneficiaries are able to purchase less over time. As will be discussed below, concerns about affordability do not justify the absence of benefit indexation.

**The Philippines could also consider having higher benefit levels for senior citizens of more advanced ages.** Older people are not a homogenous group, and many of the challenges of old age increase at more advanced ages. As described in Section 1, the likelihood of working falls sharply beyond the age of 70, and health issues increase. This might create a logic for providing higher benefit levels for older people of more advanced ages to compensate for lower levels of income from work, and higher costs related to health and care needs. There is some precedent for this approach. Countries including India, Mauritius and Thailand all vary benefit levels according to age. In Thailand, the universal old age allowance is 600 (US\$ 17) Thai baht (THB) for those aged 60-69, THB 700 (US\$ 20) for 70-79, THB 800 (US\$ 23) for 80-89 and THB 1,000 (US\$ 29) for 90+. This approach could also be used in the Philippines as the country gradually seeks to expand the social pension, with higher benefit levels being prioritized for those of more advanced ages in the short term.



## 5

## AFFORDABILITY

### 5.1 HOW MUCH WOULD A UNIVERSAL PENSION COST?

**The cost of a universal pension will vary significantly depending on the scenario chosen.** Table 5.1 presents the cost of a universal pension for all older people (age 60 and over), according to different monthly benefit levels from PhP 500 to PhP 2,000. The results are presented in PhP (billions), as a share of GDP and as a share of the 2016 budgeted government expenditure. Table 5.2 and Table 5.3 present the cost of pensions-tested options. The first scenario is where all recipients of other pensions are ineligible for the social pension, and the second scenario is where SSS pensioners remain eligible, but other pensioners are not (e.g. GSIS, armed forces). The calculations are based on coverage of contributory schemes described in Section 2. Finally, Table 5.4 and Table 5.5 show more complex options which combine a pensions-tested scheme for older people aged 65 and over, and a means-tested scheme targeting the poorest 40 per cent of older people aged 60-64. The results vary significantly in terms of the scale of cost, ranging from PhP 34 billion, to PhP 192 billion. Some key headlines from the costings are:

- A scheme with a benefit level of PhP 1,500 (a little below the 2014 poverty line) would cost 1 per cent of GDP, or 5 per cent of government expenditure.
- Simply expanding the current social pension to all senior citizens would cost PhP 48 billion, or 0.32 per cent of GDP.
- A pensions test excluding all other pensioners (e.g. SSS, GSIS,) would reduce the total cost by 28 per cent. A pensions test that did not apply to SSS would reduce the total cost by just 6.4 per cent.
- The lowest cost option would be a pensions-tested scheme of PhP 500 per month (excluding all existing pensioners), and targeting older people aged 60-64 with a means tested scheme. The total cost would be PhP 27.1 billion.

**Table 5.1: The cost of a universal pension varies significantly depending on the benefit level**

*Cost of a universal pension for all older people aged 60 and over (2016 prices)*

Cost	Benefit level (monthly, PhP)				
	500	750	1,000	1,500	2,000
PhP (billions)	47.99	71.99	95.98	143.97	191.96
% of GDP	0.32%	0.48%	0.65%	0.97%	1.29%
% of govt. expenditure	1.60%	2.40%	3.20%	4.80%	6.39%

**Table 5.2: Pensions tested for 60 years old (scenario 1)**

*No other pensioners included*

Cost	Benefit level (monthly, PhP)				
	500	750	1,000	1,500	2,000
PhP (billions)	34.2	51.3	68.4	102.7	136.9
% of GDP	0.23%	0.35%	0.46%	0.69%	0.92%
% of govt. exp.	1.14%	1.71%	2.28%	3.42%	4.56%

**Table 5.3: Pensions tested for 60 years old (scenario 2)**

*SSS pensioners included*

Cost	Benefit level (monthly, PhP)				
	500	750	1,000	1,500	2,000
PhP (billions)	44.9	67.4	89.8	134.8	179.7
% of GDP	0.30%	0.45%	0.60%	0.91%	1.21%
% of govt. exp.	1.50%	2.24%	2.99%	4.49%	5.99%

**Table 5.4: Pensions tested for 65 years old plus means-tested 60-64 (scenario 3)**

*While targeted for the 40% of 60-64 years old*

*No other pensioners included*

Cost	Benefit level (monthly, PhP)				
	500	750	1,000	1,500	2,000
PhP (billions)	27.1	40.6	54.2	81.3	108.4
% of GDP	0.18%	0.27%	0.36%	0.55%	0.73%
% of govt. budget	1.06%	1.59%	2.12%	3.2%	4.24%

**Table 5.5: Pensions tested for 65 years old plus means-tested 60-64 (scenario 4)**

*While targeted for the 40% of 60-64 years old*

*SSS pensioners included*

Cost	Benefit level (monthly, PhP)				
	500	750	1,000	1,500	2,000
PhP (billions)	35.88	53.82	71.76	107.64	143.52
% of GDP	0.24%	0.36%	0.48%	0.72%	0.97%
% of govt. budget	1.40%	2.10%	2.80%	4.21%	5.61%

*Source:* Authors' calculations based on IMF International Monetary Fund, *World Economic Outlook Database, April 2015*, 2015; Philippine Statistics Authority, "2010 Census-Based Population Projections in Collaboration with the Inter-Agency Working Group on Population Projections."

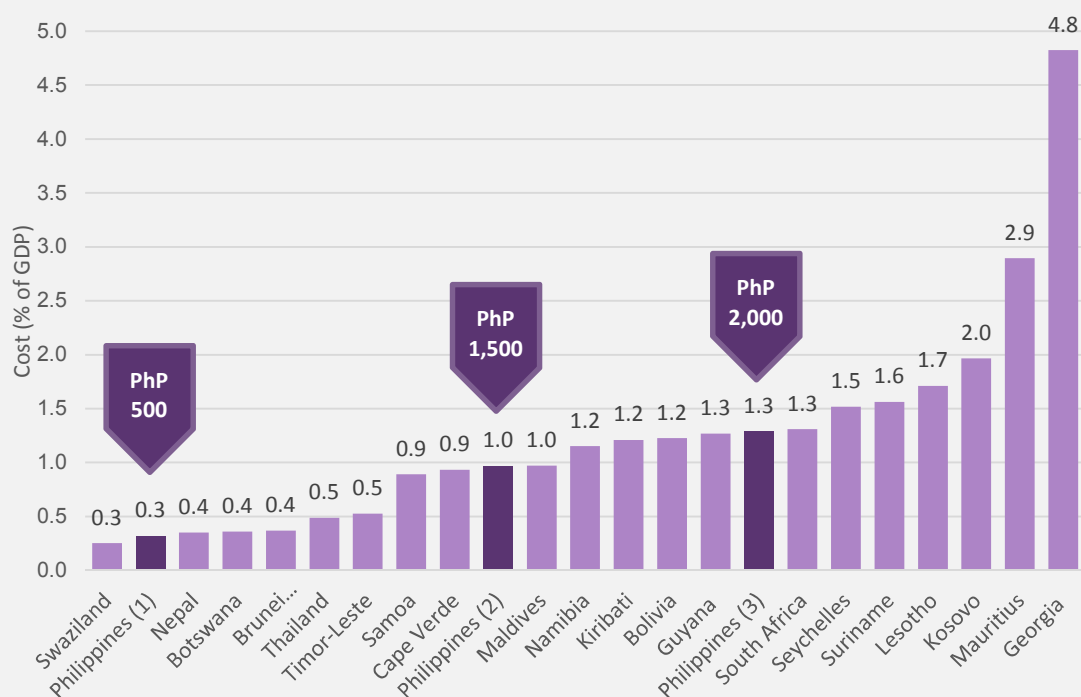
*Note:* Costings do not include administration.

**A universal pension at PhP 1,500 appears to be an affordable ambition in the medium term.** As discussed below, what is affordable is strongly influenced by the level of political will to implement a given policy. Nevertheless, a helpful reference point can be what other countries spend on universal pension schemes. Figure 5.1 shows the cost of three of the scenarios costed above in relation to how

much countries with high coverage social pensions spend on these schemes, as a share of GDP. All of the countries listed are low- and middle-income countries that have social pensions reaching over 60 per cent of the population over the defined age of eligibility. A universal pension of PhP 1,500 to over 60s would be similar to what many other countries spend on their social pensions. It would be slightly more than the cost of schemes in Samoa and Cape Verde. Notably, a number of countries with a lower GDP per capita than the Philippines (including Bolivia and Lesotho) spend more than this amount on their social pensions. The cost of a scheme paying PhP 2,000 per month in the Philippines would be higher than social pension expenditure in the majority of countries, but still slightly lower than South Africa, and significantly less than the amounts spent in Mauritius and Georgia.

**Figure 5.1: The cost of a universal pension would be in line with what other countries spend**

*Cost of universal pension scenarios in the Philippines, compared to other low- and middle-income countries with high-coverage social pensions*



Source: HelpAge International, *Social Pensions Database*.

**In the short term, extending the existing social pension to ensure universal pension coverage would entail a modest increase in expenditure.** The cost of simply extending the existing social pension (PhP 500) to all older people would be PhP 48 billion, which would reduce to just PhP 34 billion if excluding older people who already have pensions. This would be just double the PhP 17 billion already budgeted for the social pension in 2017, and around two thirds of the amount budgeted for the 4Ps (PhP 54 billion). For the cost of the 4Ps it would be possible to implement a pensions-tested social pension of PhP 750 per month.

**These levels of expenditure would also be modest compared to the significant budget allocated to tax-financed pensions for sectors including the armed forces, police and judges.** Pensions and retirement benefits for categories of public servants including the armed forces, police and judges are paid from the Pension and Gratuity Fund (PGF). The approved 2017 Budget allocates PhP 142.3 billion to this fund, which would be equal to an estimated 0.89 per cent of GDP in 2017. This is significantly higher than the PhP 17.9 billion allocated for the social pension in 2017 (0.11 per cent of GDP), and is also comparable to some of the more ambitious scenarios listed for a social pension above.<sup>89</sup> For example, a universal pension to all older people aged 60 and over with a benefit of PhP 1,000 could be afforded for 0.65 per cent of GDP; significantly less than the sum spent on the PGF. On one hand, these benefits are not directly comparable to a social pension as they represent pension rights which recognize the service of public servants during their working lives. Indeed, they might better be seen as part of the personnel costs for these sectors. However, the high level of expenditure on pensions which only cover around 3 per cent of older people (see Figure 2.6) does highlight inequity within the pension system. The cost of this programme is also rising rapidly, from PhP 110 billion in 2016 to PhP 142 billion in 2017. According to budget proposals for 2017, the reason is as follows:

*“The hefty increase in the PGF is attributed to the additional provision for Military and Uniformed Personnel pension due to the increase in the salary levels and the payment of incentives to personnel affected by the Rightsizing or Rationalization programs.”<sup>90</sup>*

There is a need to scrutinize the reasons for this rise in some detail given its scale. Notably, were this sum (PhP 32 billion) to be allocated to a social pension in addition to the current 2017 budget of 18 billion, it would be more than sufficient to fund a universal pension of PhP 500 for all older people aged 60 and over.

**A relevant concern is how the ageing of the population will increase the cost of the universal pension, yet there are ways of managing these costs.** As discussed in Section 1 of this report, the share of the Philippine population aged 60 and over is set to double between now and 2045. This could lead to concerns that the cost of a universal pension would spiral out of control as the population ages. Whether or not the cost will rise, however, is strongly influenced by choices the government makes about changes to the benefit level and the age of eligibility.

**Projections suggest the cost of a universal pension indexed to inflation would remain stable, even with low growth.** Figure 5.2 shows projections of the cost of a universal pension of PhP 1,500 for over 60s according to two different scenarios for indexing the benefit level. The first is where the benefit would be indexed to average income (GDP per capita). Under this scenario, the benefit level of PhP 1,500, which is 12.5 per cent of GDP per capita in 2016, would remain at 12.5 per cent of GDP per capita into the future. Given the recipient population would be increasing, this would mean

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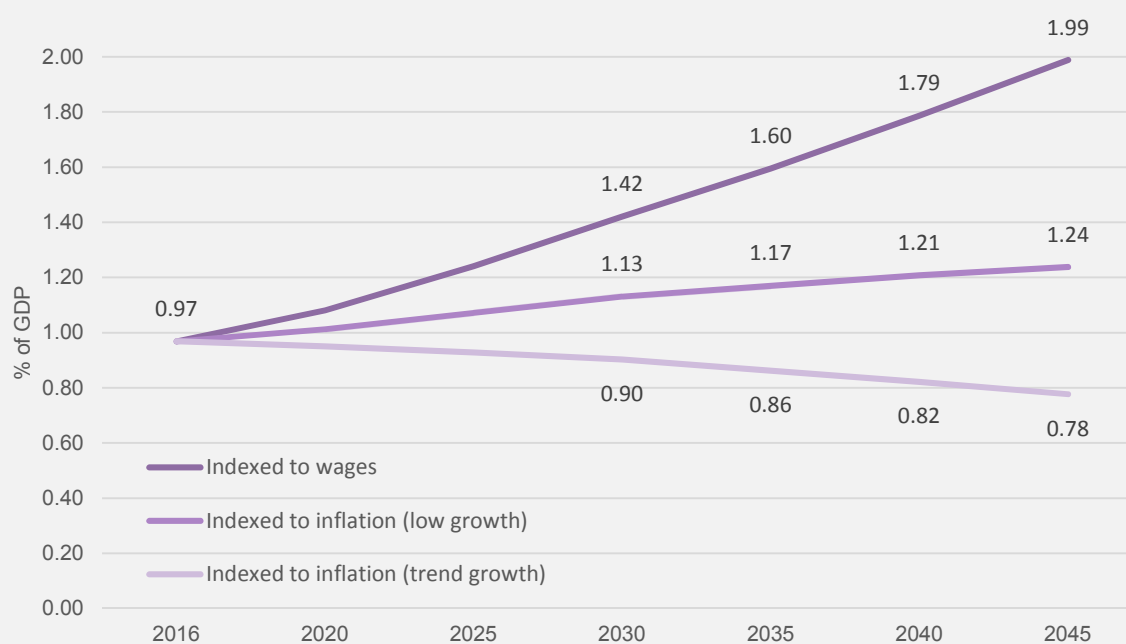
<sup>89</sup> Based on data from Department of Budget and Management, *Technical Notes on the 2017 Proposed Budget: A Budget for Real Change* (Manila, 2016). GDP figures are calculated using International Monetary Fund, *World Economic Outlook Database, October 2016*.

<sup>90</sup> Department of Budget and Management, *Technical Notes on the 2017 Proposed Budget: A Budget for Real Change*.

the cost of the scheme would double from 0.97 per cent of GDP in 2016, to 1.99 per cent of GDP in 2045. An alternative scenario would be to index the benefit to inflation, which would ensure the benefit retained its purchasing power. The impact of this approach on future costs depends on how fast the economy grows. If the economy experiences growth on par with that of the last 15 years (“trend growth”), the cost of the scheme would actually reduce to 0.78 per cent of GDP. If growth is slower – in this case, half of the trend rate of growth – then the cost would rise, but only modestly to 1.24 per cent of GDP.

**Figure 5.2: The future cost of a universal pension depends on indexation choices, and growth**

*Projected cost of a universal pension, 2016-2045*



*Source:* Authors’ calculations based on IMF International Monetary Fund, *World Economic Outlook Database, April 2015*; Philippine Statistics Authority, “2010 Census-Based Population Projections in Collaboration with the Inter-Agency Working Group on Population Projections.”

**These projections also highlight that there is little justification for not indexing the social pension benefit to inflation.** The decision not to index benefits to inflation is often claimed to be for the sake of avoiding increases in costs of social protection schemes. However, the analysis above shows that indexing benefits to inflation does not necessarily result in an increase in cost relative to GDP, and when it does the increases are often very modest.

**Gradually increasing the age of eligibility would also be a possible approach to containing the cost of the universal pension into the future.** While indexing to inflation would mean the pension benefit keeps pace with prices, over time the benefit would fall relative to average incomes, and the wages workers earn in the economy. This would reduce the redistributive power of the pension. One way to increase the benefit value in line with growth, while still keeping costs stable, would be to

gradually increase the age of eligibility. For example, were the government to gradually increase the age of eligibility to age 65 by 2045 and keep the benefit stable relative to GDP, the total cost would be 1.34 per cent of GDP, or just one third higher than the cost of the scheme today. It is worth noting that by 2045, life expectancy at birth is predicted to be 76.5 years, and 16 per cent of the population will be over the age of 60.<sup>91</sup>

## 5.2 HOW COULD IT BE FINANCED?

### 5.2.1 Creating fiscal space

**Whether there is fiscal space for a social pension in the Philippines is both a technical and a political question.** The IMF defines fiscal space as availability of budgetary room that allows a government to provide resources for a desired purpose without any prejudice to the sustainability of its financial position. The main ways in which governments can create fiscal space are by increasing tax revenues, cutting expenditure elsewhere in the budget, borrowing, or securing outside grants. Each of these choices have important technical dimensions, such as how much revenue can be generated from a given policy change and what their consequences might be for fiscal sustainability. This includes, but is not limited to, issues such as the size of the budget deficit or the incentive implications of a given change to a tax regime. However, whether or not there is fiscal space for a universal social pension will also depend on how much of a political priority it is compared to other expenditures, and whether the benefits justify the methods that may be needed to generate revenue.<sup>92</sup>

**Currently there is a strong political commitment to expand fiscal space for priorities including social spending, with a proposed tax reform agenda on the table.** It is well recognized that the level of tax collection in the Philippines is low compared to neighboring countries, and the IMF has judged there is “ample fiscal space” in the country which should be used to finance large infrastructure and social needs.<sup>93</sup> This position is shared by the current administration. President Duterte’s ten-point socio-economic plan announced in June 2016 sets out a package of key initiatives which aim to support sustained economic growth. This includes the ambitious target of reducing the poverty rate to 17 per cent by 2022. At the cornerstone of this strategy is a tax reform agenda that aims to generate revenue for key expenditures (including social protection) while making the system more progressive and effective. The tax reform agenda currently proposed includes four key packages:

- **Personal income tax and consumption tax**, including adjusting income tax brackets, limiting VAT exemptions, and levying a tax on sugar-sweetened beverages
- **Corporate income tax**, including reducing the rate over time and simplifying other corporate income tax provisions

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<sup>91</sup> Philippine Statistics Authority, “A 142 Million Philippine Population by 2045?,” 2014, <https://psa.gov.ph/content/142-million-philippine-population-2045>.

<sup>92</sup> Lara Newson and Astrid Walker Bourne, *Financing Social Pensions in Low- and Middle-Income Countries*, Pension Watch Briefing Series (London, 2009).

<sup>93</sup> International Monetary Fund, *Philippines: Staff Report for the 2016 Article IV Consultation*.

- **Property tax**, including lowering the rate of the state and donor's tax
- **Capital income tax**, including reducing tax on interest income earned on peso deposit and investment<sup>94</sup>

**A universal pension could be introduced for a fraction of the increases in revenues and expenditures from proposed tax reforms.** The Department of Finance estimate that a combination of tax policy reform and tax administration reform should yield an additional 3 per cent of GDP by 2019 to be spend on priority investments under the administration's ten-point plan. When compared to the costs of universal social pension scenarios above there are a variety of options that could be expanded for a small fraction of the increased fiscal space. A pragmatic ambition by 2019 would be to expand the current universal pension to cover all senior citizens. This would cost a total of PhP 48 billion (0.32 per cent of GDP); however, this would amount to only an additional PhP 31 billion on top of the budget already pledged for 2017. This 31 billion would be just 0.21 per cent of GDP or approximately 8 per cent of the predicted extra fiscal space projected by 2019.

**Meanwhile, there are options beyond the proposed tax reform agenda that could help to generate fiscal space for a universal pension.** It should be noted that the proposed tax reform agenda represents just one approach to generating fiscal space, and is still a topic of heated debate. Similarly, some options to increase fiscal space have not been included. For example, there exist a number of lump sum payments across the budget that deserve further scrutiny, such as the PGF already discussed in this section. Another option to generate fiscal space is the proposal to abolish the Automatic Appropriations Law. The Philippines spends a significant portion of its annual budget on servicing its debt burden. In the 2016 Budget, PhP 419 billion was allocated for principal payments, and PhP 393 billion for interest payments, a total of PhP 812, or 27 per cent of the budget of PhP 3 trillion. To put this in perspective, a universal pension of PhP 1,500 per month to all older people aged 60 and over (costing PhP 192 billion) would be equal to less than a fifth (18 per cent) of the total debt servicing in 2016. Given the large portion of the budget allocated to debt servicing, there have been increasing calls to change the way in which debt servicing is prioritized within the budget process. Specifically, the Automatic Appropriations Law introduced in 1977 compels the government to set aside a substantial portion of its annual budget for debt servicing before allocations are made for vital social and economic services. Given the urgency of improving social services and social protection, it has been recommended that this law be repealed in order to provide greater flexibility for the government to prioritise social spending, which would include social protection and the social pension specifically.<sup>95</sup>

### 5.2.2 Social pensions as an alternative to VAT exemptions

**One proposed tax reform being that deserves special attention in the proposal to remove VAT exemptions for senior citizens.** Under the Expanded Senior Citizens Act of 2010 (RA9994) all

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<sup>94</sup> Carlos Garcia Dominguez, "Proposed Tax Policy Reform Program as of Sept 22, 2016" (Department of Finance, 2016).

<sup>95</sup> Freedom from Debt Coalition, *Unpacking the Debt Burden: A Report on the Philippine Debt Situation*, 2015.

older people are exempt from the payment of VAT on the purchase of i) medicines and health services, ii) public transportation, iii) domestic air transportation, iv) hotels, restaurants and recreation centers, v) cinemas, concert halls, circuses, leisure and amusement, and vi) funeral expenses. This has been granted to give older people some economic relief. The tax reform package proposed by the current administration, however, proposes to remove these exemptions, for two primary reasons. The first is that these exemptions are perceived to primarily benefit wealthier senior citizens who have more purchasing power, and removal of these benefits would help to finance more pro-poor expenditure. Specifically, it is proposed that removal of these tax exemptions could be used to finance targeted cash transfers to poorer older people (such as the social pension). The second is that the full range of exemptions on VAT (which go beyond senior citizens) make the tax administration complex to manage.<sup>96</sup>

**There is strong evidence that VAT exemptions for senior citizens are of limited benefit to poorer older people.** An intrinsic challenge of using tax exemptions for social purposes is that they tend to benefit individuals who have higher incomes and would – without exemptions – pay more tax. This is the case with VAT in the Philippines, as better-off older people spend proportionately more on items which are VAT exempt, compared to poorer older people. For example, analysis of the FIES 2012 shows that for the richest households headed by older people<sup>97</sup>, 13 per cent of household income is spent on items which are exempted under RA9994.<sup>98</sup> This compares to just 7 per cent for the poorest households headed by an older person.<sup>99</sup> Rough calculations based on this data suggest that, for the richest 5 per cent of older people, these VAT exemptions result in a cash transfer of around PhP 435 additional income per month, while for the poorest 5 per cent they represent just PhP 7.<sup>100</sup> These calculations also assume that all older people avail of tax exemptions, however, as noted by Armovit this may not be the case, for example, due to lack of knowledge. This issue is likely to particularly affect poorer older people who have lower levels of educational attainment.<sup>101</sup>

**By contrast, a universal pension would be a far more progressive and pro-poor option.** It is sometimes assumed that flat-rate universal transfers benefit everyone equally as all recipients (rich or poor) receive the same transfer value. However, when understood in the context of the wider system of taxation and spending, universal pensions can be seen to have a progressive and redistributive impact. A useful way to illustrate this is to calculate the size of a universal pension in the same way one might present a tax: as a share of an individual or households income. Figure 5.3 does this by presenting the value of a universal pension of PhP 1,500 as a share of per capita income of older people, by ventile. The chart shows that a pension of this value would be equal to 181 per

<sup>96</sup> Dominguez, “Proposed Tax Policy Reform Program as of Sept 22, 2016.”

<sup>97</sup> Richest decile (10 per cent) based on per capita income.

<sup>98</sup> These are: funeral services, recreational services, medicine and medical services, restaurant and hotel services and public transport services.

<sup>99</sup> Jem Armovit, *A Comprehensive Tax Reform Proposal for the Consideration of the Next Administration*, 2016.

<sup>100</sup> These calculations take the per capita income of older people (based on the APIS 2013) in the poorest and richest ventile, calculating the share of this income spent on VAT exempt items based on the share of household income spent on these items in the poorest and richest decile (analysed by Armovit). The cash benefit is then calculated as 12 per cent of this amount (the VAT rate in the Philippines).

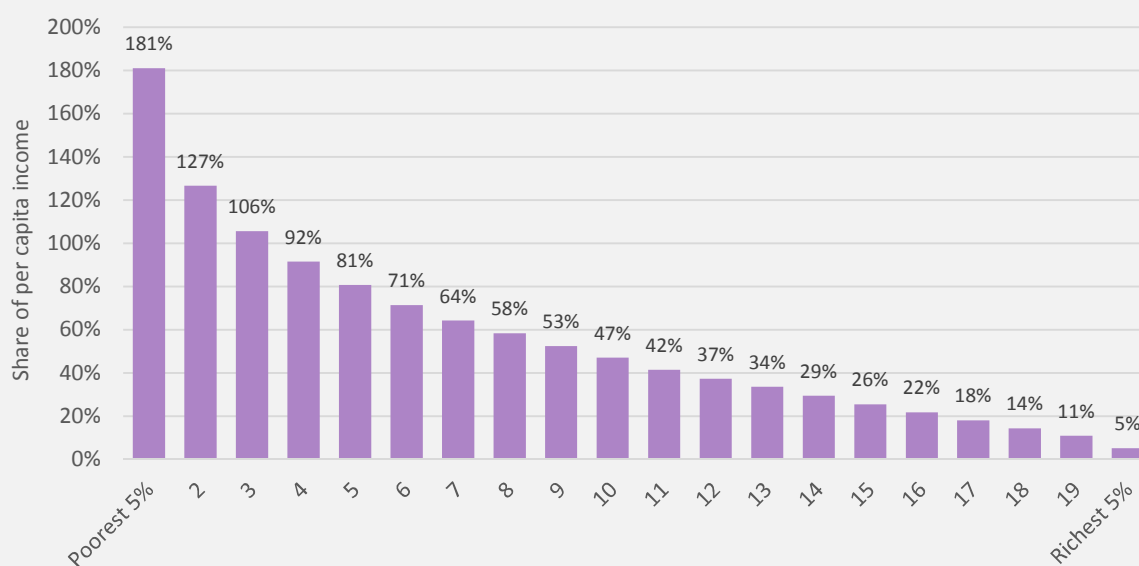
<sup>101</sup> Armovit, *A Comprehensive Tax Reform Proposal for the Consideration of the Next Administration*.



cent of the per capita income of an older person in the poorest 5 per cent of the population (PhP 829 per month), and just 5 per cent of the income of someone in the richest 5 per cent (PhP 28,758 per month). This contrasts starkly with the VAT exemptions which represent a higher proportion of income of better-off older people. It is for this reason that universal transfers combined with progressive tax systems provide an extremely effective method of redistributing income, which has been illustrated by various scholars including Mkandawire.<sup>102</sup> These dynamics also help explain why a universal pension would contribute to reducing inequality, as discussed in Section 3.

**Figure 5.3: Universal pensions are a highly progressive policy**

*Social pension benefits (PhP 1,500) as a share of average monthly per capita income of older people (60+) by ventile (groups of 5 per cent of the population), 2013*



Source: APIS 2013 (Authors' calculations)

**From a political perspective, a universal pension would be a more palatable alternative to VAT exemptions than a means-tested scheme.** While there are strong rational arguments for replacing VAT exemptions with greater expenditure on social pensions, there are important political considerations to take into account. Tax exemptions included in the RA9994 are not only designed to provide economic support, but as a recognition and appreciation of the previous and current contributions of older people. Many older people will have also factored in these exemptions into future financial planning, meaning there would be negative consequences to simply removing them overnight. It has been suggested that the revenue generated from removing VAT exemptions could be diverted to social pensions and other cash transfers targeted at the poor. However, this “Robin Hood” approach may face political obstacles. Despite the regressive nature of VAT exemptions, in

<sup>102</sup> Thandika Mkandawire, *Targeting and Universalism in Poverty Reduction* (Geneva, 2005).

principle they are a universal policy that all older people can benefit from, which is not the case with poverty-targeted cash transfers. In this respect, a universal pension would provide a more appropriate political compromise, maintaining the universal spirit of the VAT exemptions, but in the form of a policy that will provide progressive and pro-poor outcomes.

**VAT exemptions should not be seen as the sole source of funding for a universal pension.** The link between VAT exemptions and social pensions relates to the fact that both aim to provide a similar function – that is – improving the financial situation of older people. As discussed, a universal pension could provide something of a political compromise to the removal of VAT exemptions. However, the role of a universal pension and its financing go well beyond this specific tax. As described throughout this report, universal pensions seek to recognize the contributions – financial or otherwise – that older people have made throughout their lives, to various dimensions of society and the economy. Their positive impacts are also far reaching, contributing to reduction of poverty and inequality, boosting human capital and strengthening livelihoods. As a result, a universal pension should be seen as a priority for the nation as a whole, and therefore should be financed from a general revenue, rather than one specific source.

## CONCLUSIONS AND RECOMMENDATIONS

**A**n effective pension system is critical not only support dignity in later life, but as part of a broader strategy to tackle poverty and inequality in the Philippines. Growing older comes with various challenges that make it harder to earn an income, and there are drawbacks to leaving families to fill the gap. Most families in the Philippines struggle to make ends meet, and are forced to balance financial support to older people with other priorities. For older people, having to depend on family can compromise their dignity and autonomy. By providing income security in the later years, an effective pension system helps ensure a dignified old age, provide a boost to low income families, and constitute a tool to share the proceeds of growth amongst the general population.

**Building a comprehensive pension system will demand a layered mix of programs, but social pensions will be central to ensuring universal coverage in the coming decades.** All pension systems require both contributory and non-contributory elements if they are to achieve their key objectives of consumption smoothing and redistribution. Currently the system falls short on these objective, leaving over half of older people with no pension. Action is needed to strengthen contributory schemes such as the SSS and GSIS, however, high levels of poverty and informal employment mean that significant increases in contributory coverage are unlikely in the near future. In this context, tax-financed social pensions will be essential in the coming decades to ensures that all older people can receive at least a minimum income in old age.

**Universal social pensions provide a simple, popular and administrative light way to ensure income security for all older people.** Many countries facing similar circumstances to the Philippines have introduced universal pensions as a way of rapidly filling the pension coverage gap. Universal pensions avoid the significant exclusion errors inherent to means-tested schemes, ensuring virtually all poor older people can be reached. But a universal social pension should not be seen in isolation. One of its advantages is that it can provide a guaranteed income in old age for low-income informal sector workers, without creating disincentives to build additional pension savings. In this way, it can provide a foundation for the pension system. Evidence from the Philippines and other countries suggests a universal pension would have substantial impacts on a wide array of development outcomes including poverty, inequality, human capital, livelihoods, economic development and – of course – the wellbeing and dignity of Filipinos in later life. In this sense the scheme would support the country to meet a variety of Sustainable Development Goals.

**There are affordable options to universalize the social pension in the short term, while working towards a scheme with higher levels of adequacy.** A universal pension for all Filipinos

close to the poverty line (e.g. PhP 1,500) would be in reach for the country in the medium term, costing 1 per cent of GDP. This is not a small sum, but is comparable to other countries that have made social protection policy a priority. In the shorter term, the current social pension of PhP 500 could be expanded to cover all older people at a relatively modest cost. Expanding the pension would fit well within the objectives of the current proposed tax reform agenda and would only require a small portion of the net increases in fiscal space.

Drawing on this analysis, the report makes the following **recommendations**:

- A universal pension should be recognized as a priority policy within the country's socio-economic agenda
- In the **short term**, by 2019, the current social pension should be expanded to cover all senior citizens, possibly with some form of pensions test.
- In the **medium term**, the country should work to increase the benefit level of the universal pension to provide genuine adequacy for older people.
- While universal pensions are relatively simple to administer, systems for implementation will need to be adapted for an expanded scheme to ensure adequate service delivery.
- A universal pension should be seen as a stepping stone to building a comprehensive social protection floor that addresses the range of life cycle risks (including disability), and which is complemented by effective and sustainable contributory schemes.
- A universal pension should also be complemented by initiatives to support people to work into later life, including by combatting age discrimination in the work place, and ensuring the labor market provides appropriate work for older people.

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